



**United Nations**

**Voluntary funds administered by the  
United Nations High Commissioner  
for Refugees**

# **Financial report and audited financial statements**

**for the year ended 31 December 2012  
and**

## **Report of the Board of Auditors**

**General Assembly  
Official Records  
Sixty-eighth Session  
Supplement No. 5E**

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**Voluntary funds administered by the United Nations High  
Commissioner for Refugees**

**Financial report and audited  
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**Report of the Board of Auditors**



United Nations • New York, 2013



*Note*

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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## Letter of transmittal

31 March 2013

Pursuant to the financial rules for voluntary funds administered by the United Nations High Commissioner for Refugees, we have the honour to submit the financial statements for the year ended 31 December 2012, certified and approved in accordance with article 11.4 of these rules.

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries with other officials of the organization, the following representations in connection with your audit of the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2012:

1. We are responsible for preparing financial statements that properly present the activities of the organization, and for making accurate representations to you. All of the accounting records have been made available for the purposes of your audit, and all of the transactions that occurred in the financial period, have been properly reflected in the financial statements and recorded by the organization in the accounting and other records. All other records and related information have been made available to you.
2. The financial statements have been prepared and presented in accordance with:
  - (a) The International Public Sector Accounting Standards (IPSAS);
  - (b) The Financial Regulations of the United Nations;
  - (c) The financial rules for voluntary funds administered by the High Commissioner;
  - (d) The accounting policies of the organization, as summarized in note 2 to the financial statements.
3. The property, plant and equipment, intangible assets and inventories disclosed, respectively, in notes 3.5, 3.6 and 3.3 to the financial statements are owned by the organization and are free from any charge.
4. The value of cash and inter-agency balances recorded is not impaired and, in our opinion, is fairly stated.
5. All material accounts receivable have been included in the financial statements and represent valid claims against debtors. Apart from the estimated uncollectable amounts, recorded under the allowance for doubtful accounts, we expect all significant accounts receivable as at 31 December 2012 to be collected.
6. All known accounts payable and accruals have been included in the financial statements.

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7. The commitments of the Office of the United Nations High Commissioner for Refugees for the acquisition of goods and services, as well as the capital commitments contracted but not delivered as at 31 December 2012, are disclosed in note 9.2 to the financial statements. Commitments for future expenses are not recognized in the financial statements, in line with International Public Sector Accounting Standard 1, "Presentation of financial statements", and on the basis of the delivery principle.

8. As at 31 December 2012, there were no material legal or contingent liabilities likely to result in a significant liability to the Office of the High Commissioner.

9. The opening balances as at 1 January 2012 have been restated to incorporate adjustments made owing to changes in accounting policies resulting from the implementation of IPSAS as from 1 January 2012.

10. All expenses reported during the period were incurred in accordance with the financial rules of the organization and any specific donor requirements.

11. All losses of cash or receivables, ex gratia payments, presumptive frauds and frauds, wherever incurred, were communicated to the Board of Auditors.

12. Disclosure was made in the financial statements of all matters necessary to enable them to present fairly the results of the transactions during the period.

13. There have been no events since the reporting date of 31 December 2012 that necessitate revision of the figures included in the financial statements or a note thereto.

*(Signed)* Kumiko Matsuura-Mueller

Controller and Director

Division of Financial and Administrative Management

*(Signed)* António Guterres

United Nations High Commissioner for Refugees

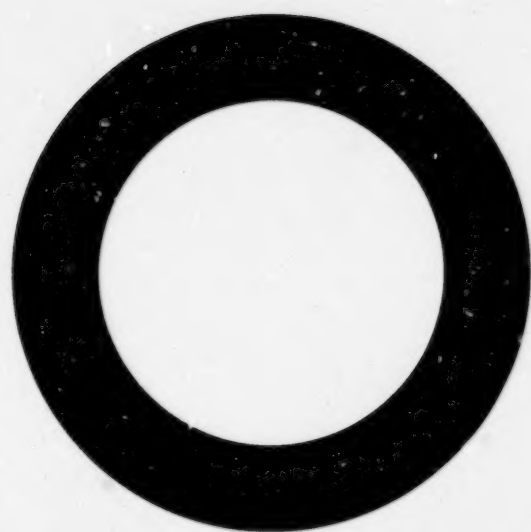
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30 June 2013

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2012.

*(Signed)* Amyas Morse  
Comptroller and Auditor-General of the  
United Kingdom of Great Britain and Northern Ireland  
Chair of the Board of Auditors

The President of the General Assembly  
of the United Nations  
New York



## Chapter I

### **Report of the Board of Auditors on the financial statements: audit opinion**

#### **Report on the financial statements**

We have audited the accompanying financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2012, which comprise the statement of financial position, the statement of financial performance, the statement of changes in net assets, the statement of cash flow, the statement of comparison of budget and actual amounts, and the explanatory notes.

#### *Responsibility of management for the financial statements*

The United Nations High Commissioner for Refugees is responsible for the preparation and fair presentation of these financial statements, in accordance with the International Public Sector Accounting Standards (IPSAS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Responsibility of the auditors*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves the performance of procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes an evaluation of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the High Commissioner as at 31 December 2012 and the financial performance and cash flows for the year then ended, in accordance with IPSAS.

**Report on other legal and regulatory requirements**

In our opinion, the transactions of the voluntary funds administered by the United Nations High Commissioner for Refugees that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for voluntary funds administered by the High Commissioner.

In accordance with article VII of the Financial Regulations of the United Nations, we have also issued a long-form report on our audit of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(Signed) **Amyas Morse**  
Comptroller and Auditor-General of the  
United Kingdom of Great Britain and Northern Ireland  
Chair of the Board of Auditors  
(Lead Auditor)

(Signed) **Liu Jiayi**  
Auditor-General of China

(Signed) **Ludovick S. L. Utouh**  
Controller and Auditor-General of the  
United Republic of Tanzania

30 June 2013

## Chapter II

### Long-form report of the Board of Auditors

#### *Summary*

The Office of the United Nations High Commissioner for Refugees (UNHCR) provides protection and assistance to some 35.8 million persons forcibly displaced within or beyond their countries of origin. It is a devolved organization with more than 8,400 staff, working in 452 offices located in 127 countries. It provides support in long-term situations as well as humanitarian emergencies, such as the recent large-scale displacements in the Democratic Republic of Congo, Mali, the Sudan and the Syrian Arab Republic. It is funded almost entirely by voluntary contributions, with total revenue of \$2.44 billion, of which agreements for voluntary contributions totalling \$2.41 billion were recognized in 2012, against total expenses of \$2.31 billion.

The Board of Auditors audited the financial statements and reviewed the operations of the voluntary funds administered by the Office of the United Nations High Commissioner for Refugees for the year ended 31 December 2012. The audit was carried out by examining financial transactions and operations at UNHCR headquarters in Geneva and its Global Service Centre in Budapest. The Board also undertook field visits to UNHCR operations in Côte d'Ivoire, Jordan, Sri Lanka and Uganda and to the global stockpile warehouses in Dubai, United Arab Emirates, and Copenhagen.

#### **Opinion**

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2012 and the financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

#### **Overall conclusion**

UNHCR successfully implemented the IPSAS accounting framework in 2012, which was a major achievement reflecting well on the capacity of management to implement change programmes. There is further work to do in the area of property, plant and equipment, where UNHCR has used transitional arrangements in line with IPSAS provisions allowing up to five years for the deferral of the recognition of property, plant and equipment. The Board's analysis of the financial position of UNHCR as at 31 December 2012 confirms that the organization is in good financial health. The challenge now before UNHCR is to use the new financial information that IPSAS-based accounting provides to better control operations and improve decision-making and financial management.

More broadly, UNHCR must continue to respond to humanitarian emergencies, which requires a modern and efficient administration able to deploy resources at short notice, objectively, cost-effectively and transparently. The Board has stated in previous reports that it must enhance management capability in several areas, and notes steady progress towards improved management in a range of areas. Many of

the improvements needed will take several years to implement. They include rolling out improvements in financial management capacity, embedding the new risk-based framework to manage implementing partners and implementing the enhancements to project management, performance measurement and supply management.

The Board found that the organization has not yet adequately responded to the previous recommendation that it update its anti-fraud strategy. UNHCR has not assessed risks of external fraud committed by third parties, such as suppliers or implementing partners. The organization therefore cannot assess how vulnerable it is to fraud or make sure that it acts to mitigate such risks. The Inspector General's Office does not maintain any performance measures or targets to measure or benchmark its performance in investigations, nor does it collate data to monitor trends in terms of fraud or other misconduct.

UNHCR relies significantly on implementing partners to support field operations. The value of the operations implemented through partners amounted to \$897.1 million in 2012. The Board has previously highlighted the risks of fraud and error inherent in the use of implementing partners, and the need therefore to monitor and oversee their activities. The Board found that UNHCR needs to further strengthen its risk assessments and improve its supervisory controls. The Board is encouraged that UNHCR plans to strengthen its due diligence work in selecting implementing partners through "multidisciplinary country implementing partner management committees". UNHCR could also improve its monitoring and control of implementing partners by combining its review of financial reports with its review of activity performance reports. If it did so, UNHCR could more readily assess project and programme pace and delivery against the funding provided.

Within a corporate framework embodying results-based management, UNHCR has decentralized operations, allowing country-level managers to manage according to local circumstances. The Board has previously highlighted the need for headquarters to:

- Improve its oversight of country-level compliance with key controls over assets and expenses;
- Obtain better information about programme delivery and results through project planning and reporting systems;
- Give staff accessible and comprehensive guidance;
- Provide enhanced specialist skills in such functions as procurement.

Many of our previous recommendations, particularly those in the area of procurement, remain to be implemented in 2013. Our findings on fleet management for the period ended 31 December 2012 highlight similar issues. These include not only weak asset management, inadequate management information and the need to strengthen skills and expertise in important functions, but also specific plans to address the issues.

#### **Key findings and recommendations**

##### *Follow-up of previous recommendations*

As at 31 March 2013, of the 52 recommendations we made for 2011 and previous years, UNHCR had fully implemented 12 (23 per cent), 38 (73 per cent)

were under implementation and 2 had not been implemented. Many of the recommendations are due to be implemented in 2013, and the Board therefore expects a significant increase in the number of fully implemented recommendations when it reports on the 2013 financial statements. The Board considers the overall progress made to be positive. However, it considers that UNHCR has made insufficient progress in checking asset data, especially inventory records. The Board notes that the Division of Emergency, Security and Supply needs to complete 13 actions outstanding from the Board's 2011 examination of procurement.

#### *Implementing the International Public Sector Accounting Standards*

The adoption of IPSAS and the increasing expenditure in recent years have accentuated the need for strong financial management throughout UNHCR. In response to the Board's previous recommendations in this area, UNHCR restructured its headquarters finance team and created a number of additional key posts to provide better oversight and support in the field. Despite these measures, the Board continued to observe weaknesses in financial management in the field and a lack of compliance with procedures, leading to increased risks of fraud and error. Those risks are amplified, as UNHCR has not undertaken a comprehensive assessment of its fraud risks.

#### *Financial reporting*

In response to the Board's previous recommendations, UNHCR developed a quarterly management report for its regional bureaux and its divisional directors, but the report largely summarizes financial information at an organizational level, without providing in-depth analysis. The Office also developed a summary report (dashboard) of indicators for its country representatives, which it expects to roll out in September 2013. The Board acknowledges the progress made by UNHCR in developing internal financial reporting. However, the Office needs to go further and consider more fully what its key information needs are. Management reports and dashboards should be readily available and reviewed on a regular basis to identify needs for corrective action.

#### *Inventory management*

At 31 December 2012, UNHCR held \$122.0 million of inventory in 190 warehouses. In 2012, it procured 20 per cent more inventory than it distributed. The Board found evidence of limited global coordination or integrated planning of its inventory and procurement requirements. The Board also found that local representatives had failed to accurately account for inventory during the year and had not adequately complied with the requirement that they update and reconcile their inventory records at year-end. As a result of the Board's audit, UNHCR had to adjust its reported consumption of inventory by some \$18.4 million to ensure that its financial statements were fairly stated at year-end.

#### *Vehicle fleet management*

**There is insufficient information for the management of the vehicle fleet.** UNHCR does not have a robust and up-to-date picture of the performance and operating costs of its estimated 5,995-vehicle fleet. The Office does not compile statistics to analyse fleet use, which could help to identify areas in which the number

of vehicles provided is excessive or inadequate. Financial systems do not generate specific financial information on the vehicle fleet, and therefore operating costs are only estimated, at some \$80 million to \$85 million in 2012.

**There are low levels of professionalism and specialist guidance.** Few staff at the country level have formal qualifications in the area of logistics. In addition, there is no comprehensive UNHCR fleet management manual or training to help staff understand best practice or carry out their jobs effectively. The Board found no standard tools, such as templates or systems for analysing fleet performance, to assist local staff.

**There is no overview of vehicle deployment and use between countries.** The Board found no evidence that UNHCR transferred vehicles from one country operation to another where they were more needed, or of systems to ensure that this was an informed and considered process. As UNHCR has adopted transitional provisions of IPSAS relating to property, plant and equipment, it may take up to five years to assemble fully accurate and up-to-date information on its vehicle fleet.

Towards the end of our examination, in March 2013, UNHCR decided to change its fleet management arrangements as from January 2014. The Board's findings confirm the need for thorough transformation. The Office's global fleet management project should address many of the deficiencies we saw in current arrangements, through improved management information and guidance and stronger incentives to act on it. However, the prospects for the success of the project will lie in the quality of the details of its design and implementation.

In the light of the findings set out above, the Board makes detailed recommendations in the main part of the present report. In summary, they are that UNHCR:

- (a) **Establish the required number of suitably qualified personnel within its finance and project control posts in the field;**
- (b) **Review its current scheme of delegations to establish a consistent framework for authorizing the write-off or disposal of assets;**
- (c) **Review its procedures for the management of inventory throughout the organization, so that they remain appropriate for each environment; identify and address the reasons for the widespread non-compliance with current inventory procedures, and develop and implement revised inventory procedures to ensure that physical inventory and accounting records remain up to date and reliable;**
- (d) **Enhance inventory management systems to support better replenishment decisions;**
- (e) **Designate a senior responsible officer with a clear mandate to implement the updated anti-fraud strategic framework;**
- (f) **Perform a comprehensive fraud risk assessment to identify its main areas of risk exposure;**
- (g) **Maintain information on vehicle use across the country network to assist it in considering redeployment between country operations;**

(h) Establish a policy specifying that only staff possessing, or studying to acquire, internationally recognized qualifications in logistics and fleet management may manage country fleets exceeding 30 vehicles;

(i) Compile, by the end of 2014, a cohesive and comprehensive fleet management manual consolidating all existing memorandums and addressing key gaps in guidance coverage.

## **A. Background**

1. The Office of the United Nations High Commissioner for Refugees (UNHCR) provides protection and assistance to some 35.8 million persons forcibly displaced within or beyond their countries of origin. It operates as a devolved organization with more than 8,400 staff, including those on temporary appointments, working in 452 offices located in 127 countries. UNHCR provides support in long-term displacement situations and in dealing with humanitarian emergencies, such as the large-scale displacements in 2012 in the Democratic Republic of Congo, Mali, the Sudan and the Syrian Arab Republic.

2. UNHCR is undergoing structural and management changes designed to reinforce its capacity to deliver its services and fulfil its mandate. This includes the adoption of the International Public Sector Accounting Standards (IPSAS) as from 1 January 2012 to enhance financial management and reporting.

## **B. Mandate, scope and methodology**

3. The Board of Auditors has audited the financial statements of UNHCR and has reviewed its operations for the financial period ended 31 December 2012 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with the Financial Regulations of the United Nations, the financial rules for voluntary funds administered by the High Commissioner and, where applicable, the Financial Rules of the United Nations, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

4. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNHCR as at 31 December 2012 and its financial performance and cash flows for the year then ended, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for voluntary funds administered by the High Commissioner. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

5. The Board also reviewed UNHCR operations under financial regulation 7.5, which requires the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the organization. For the period ended 31 December 2012, the Board reports on UNHCR vehicle fleet management and the preliminary findings resulting from an examination of the delivery of health services to be completed in 2013.

6. During the course of the audit, the Board visited UNHCR headquarters in Geneva and its Global Service Centre in Budapest, and examined field operations in Côte d'Ivoire, Jordan, Sri Lanka and Uganda. In addition, the Board performed stock checks of the inventory held at the global stockpiles in Dubai, United Arab Emirates, and Copenhagen. The Board continued to work collaboratively with the Office of Internal Oversight Service (OIOS) to provide coordinated coverage.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's report was discussed with UNHCR management, whose views have been appropriately reflected.

## C. Findings and recommendations

### 1. Follow-up of previous recommendations

8. UNHCR has developed an action plan that provides a clear framework for tracking its progress in implementing the Board's previous recommendations. The Board considers that UNHCR continues to respond positively to the concerns raised previously, although progress remains slow in some areas. The Board recognizes, however, that many of its previous recommendations require structural or far-reaching action and that progress in some areas will therefore take time to deliver. Consequently, many recommendations are due for final implementation in 2013. A commentary on the status of implementation of the Board's recommendations is set out in the annex and summarized in table II.1.

Table II.1

#### Status of implementation of previous recommendations of the Board of Auditors

|                           | <i>Fully<br/>implemented</i> | <i>Under<br/>implementation</i> | <i>Not<br/>implemented</i> | <i>Total</i> |
|---------------------------|------------------------------|---------------------------------|----------------------------|--------------|
| Number of recommendations | 12                           | 38                              | 2                          | 52           |
| Percentage                | 23                           | 73                              | 4                          | 100          |

9. While the Board recognizes that positive progress has been made overall, it considers that there has been insufficient progress by the Supply Management Service in validating asset data, especially inventory records. The Board also notes the need for the Supply Management Service and the Procurement Management and Contracting Service to complete 13 actions outstanding from the Board's 2011 examination of procurement, principally by quickly finalizing and issuing the Office's new supply manual, completing its work to redefine key performance indicators and completing a review of potential service contracts and specifications. Until this is done, the organization's implementation rate, which currently stands at

23 per cent, will remain low. We will continue to work with UNHCR to monitor the effectiveness of the action taken.

## **2. Implementation of the International Public Sector Accounting Standards**

10. In 2012, UNHCR produced its first set of IPSAS-compliant financial statements. While the implementation of the Standards had been deferred from 2010, this was nonetheless a significant achievement, reflecting strong commitment on the part of management to the execution of an agreed IPSAS project implementation plan.

11. The accruals basis of accounting under IPSAS recognizes transactions and other events when they occur, not only when cash or its equivalent is received or paid. The transactions and events are thus recorded in the accounting records and recognized in the financial statements for the periods to which they relate. The adoption of IPSAS has no impact on the underlying financial transactions or activities of UNHCR, but introduces new terminology and changes the way in which transactions are treated and presented in the financial statements.

12. With the exception of property, plant and equipment assets, which IPSAS allows five years to fully account for, the new financial statements provide users with complete information about UNHCR resources and obligations as at 31 December 2012 and the movements in resources during the financial year. Statement V allows readers of the accounts to compare outturn for the period on the same (cash) basis as that on which the budget was prepared. The statements are also supported by a full set of notes, including a summary of significant accounting policies.

13. Note 12 to the financial statements sets out the adjustments made to opening balances as at 1 January 2012 as a result of the adoption of IPSAS. Significant adjustments to opening balances included:

(a) Recognition of \$733.6 million (\$593.1 million of current (short-term) and \$140.5 million of non-current) in contributions receivable income that was not recognized under UNSAS but was supported by signed contribution agreements and therefore is recognized under IPSAS;

(b) Elimination of \$205.8 million in expenses that had been obligated or charged against budgets under the United Nations system accounting standards, but with respect to which goods and services had not been received as at 31 December 2011 and are not therefore recognized under IPSAS;

(c) First-time recognition of \$92.5 million in inventory assets;

(d) Recognition of property, plant and equipment with a value of \$52.3 million.

14. In addition to the aforementioned adjustments, a number of other reclassifications were made. For example, end-of-service and post-retirement liabilities reported under the United Nations system accounting standards have been split out and reclassified into current or non-current employee benefits, and certain balances reported under those standards as "cash and term deposits" have been renamed "cash and cash equivalents", in line with IPSAS terminology.

15. The statement of changes in net assets (statement III) reconciles the balances reported in the 2011 audited financial statements, prepared under the United Nations

system accounting standards, with the opening balances in the 2012 financial statements, prepared under IPSAS. The reconciliation demonstrates the impact of IPSAS reporting on the financial statements and shows that total adjustments of \$1,089 million were made to establish IPSAS-compliant opening balances.

16. The recognition of assets and liabilities of the organization as they are acquired and incurred leads to improved information for decision makers and, in principle, enables Member States and other users of the financial statements to understand more readily the true financial position and performance of UNHCR. Furthermore, the adoption of a common set of accounting standards across the United Nations system facilitates and makes more useful the comparison of financial performance across and between organizations.

*Benefits of the International Public Sector Accounting Standards*

17. The Board previously recommended that UNHCR identify the objectives and benefits of adopting IPSAS and develop a methodology for tracking and managing them. In response to that recommendation, UNHCR held workshops with experts in relevant areas of business to identify the benefits of the IPSAS project and developed a status report on benefits realization identifying key benefits arising from improved processes, more accurate recording and greater transparency of financial information.

18. Following up and reporting on the realization of benefits were the responsibility of the IPSAS project manager. Now, however, the IPSAS implementation project is complete. UNHCR recognizes that it is necessary for senior managers in every business unit to take ownership of and ensure the realization of the intended benefits. While the Board agrees with this view, it is concerned that in the absence of central oversight, the realization of IPSAS benefits may be overtaken by other priorities. In the Board's view, the intended benefits should be properly tracked and overseen by a suitably empowered and authorized senior responsible owner, with the existing methodology for monitoring and tracking benefits maintained.

19. UNHCR acknowledged the importance of maintaining the momentum in the realization of IPSAS benefits, and these will be tracked and delivered by each division in close coordination with the Office of the Controller. UNHCR has already identified a number of early benefits, including the following:

(a) The data-cleansing activities and data analyses required for the implementation of IPSAS generated much-improved information on such assets as inventory and property, plant and equipment. As part of this process, 208 old items of property, plant and equipment were identified and subsequently sold, generating \$1.2 million in income. Approximately \$20 million in old, excess and/or obsolete inventory has also been identified;

(b) Data-cleansing activities required as part of IPSAS implementation also identified some \$50.4 million in assets, comprising accounts receivable (\$30.1 million) and inventory assets (\$20.3 million), which were unlikely to be collected or used and were therefore impaired. During 2012, \$17.9 million in these assets were written off, ensuring that assets were not overstated;

(c) IPSAS has generated improved records and documentation concerning financial assets and has required more rigorous analysis, and therefore improved

management, of risks involving credit, liquidity, interest rates, foreign exchange and market and price movements;

(d) Analysis of employee benefits liabilities also prompted a more focused review of funding arrangements, and, as at 31 December 2012, \$11 million in funding had been established towards after-service health insurance liabilities and some \$2 million towards the funding of repatriation entitlement liabilities;

(e) Renewed training and updated documentation of policies and procedures based on internationally accepted accounting standards and best practice helped to promote improved professional skills, capacity and understanding on the part of staff.

20. While the Board is encouraged by the benefits already identified by UNHCR, it is important that concerted action be taken to realize the full range of benefits available as a result of access to more reliable and complete financial information. IPSAS provides a platform for improving operational performance and financial management across the organization. It facilitates better measurement and understanding of the full costs of operations as well as the benchmarking or comparison of costs against those of similar organizations. In particular, the much-improved information available on the use of resources and the extent of liabilities needs to be used to improve the management of all areas, including fixed assets, inventory, payroll and wider employee benefits. For example, by using the new information available on UNHCR property assets and leases, the Office will be able to develop a comprehensive estate management strategy. Such initiatives provide an opportunity for the finance function to implement tools and processes for the optimization of decision-making and to play a more strategic role at the heart of the organization.

#### *Financial overview*

21. In addition to specific and tangible benefits such as those set out above, IPSAS financial statements allow for improved transparency of expenses, including a better understanding of the costs of the organization, through the disclosure of expenses in the statement of financial performance. The financial report contained in chapter III below provides a comprehensive financial analysis, so the Board has only a limited number of additional comments to add.

22. In 2012, as part of total expenses of \$2.3 billion, UNHCR incurred costs of \$897.2 million (39 per cent) through implementing partners and \$687.7 million (30 per cent) through UNHCR staff. In its financial report, the Office also discloses programme expenses of \$1,941.5 million, programme support expenses of \$286.9 million and management and administration expenses of \$120.7 million. In accordance with the IPSAS transitional provisions, comparative information has not been provided for 2012. Full prior-year comparatives will be available in 2013.

23. Total revenue of \$2.4 billion is reported for 2012. Regular budget contributions to UNHCR for 2012 amounted to \$58.9 million, of which \$11.8 million was recognized in 2012. However, UNHCR is almost entirely funded by voluntary contributions, with 80.7 per cent coming from Governments, 5.4 per cent from private donors, 4.7 per cent from United Nations entities and the remainder from other donors. Under IPSAS, revenue is accounted for when UNHCR takes control of

assets, when contribution agreements are signed or when goods are donated to the Office. In 2012, UNHCR received \$27.3 million in in-kind contributions.

24. UNHCR reported a net surplus of \$130.9 million for 2012 (as shown in statement II). The reporting of more complete information on assets and liabilities in statement I confirms that UNHCR has sufficient reserves to meet its current liabilities and adequate resources to continue its normal operations, equivalent to five months' expenses. This is the first time that such comprehensive financial information has been presented, and that information demonstrates that UNHCR is in good financial health. The sound financial position of the Office can also be illustrated using key financial indicators such as ratios. A number of financial indicators based on the UNHCR financial position as at 31 December 2012, compared with 1 January 2012, are set out in table II.2 and show that the Office has a very strong set of indicators, with assets comfortably exceeding liabilities and sufficient cash to ensure a good liquidity position.

Table II.2  
Financial ratios

|                                                    | As at 31 December 2012 | As at 1 January 2012 |
|----------------------------------------------------|------------------------|----------------------|
| Current assets to current liabilities <sup>a</sup> | 9.2                    | 8.7                  |
| Total assets to total liabilities <sup>b</sup>     | 2.6                    | 2.7                  |
| Cash to current liabilities <sup>c</sup>           | 2.9                    | 3.6                  |
| Cash to total assets <sup>d</sup>                  | 0.3                    | 0.4                  |

Source: UNHCR financial statements.

<sup>a</sup> A high ratio reflects the ability to meet short-term obligations; higher ratios indicate high liquidity.

<sup>b</sup> A high ratio indicates a strong solvency position.

<sup>c</sup> A high ratio reflects the extent of cash available to settle debts.

<sup>d</sup> A high ratio reflects a healthy financial position.

25. The ratios set out in table II.2 show that current assets are approximately nine times greater than current liabilities and that total assets are around three times greater than total liabilities. The ratios also confirm that UNHCR holds ample cash reserves to meet current (short-term) liabilities. While these ratios are positive, they may also indicate that UNHCR has built up excessive holdings of some assets that could be usefully deployed and consumed in operations or disposed of to generate income.

26. UNHCR agreed with the Board's recommendation that it review the level of assets currently held to ensure that they are not excessive in relation to foreseeable requirements.

27. UNHCR noted that while it agreed that the level of assets held must be reviewed in order to avoid excess, it was also important that the past trend of implementation indicated steady growth and that the organization be prepared for the future, taking into account the trends (such as steady growth) and not only the performance over the past financial year. UNHCR is continuously monitoring the level of assets.

*Financial monitoring and reporting*

28. Regular financial monitoring, essential to strong management and budgetary control, requires timely information with an appropriate level of detail and a supporting narrative to focus management's attention on areas of concern, unusual activity or risk. A number of steps have been taken in response to the Board's previous recommendations that UNHCR enhance internal financial reporting and develop scorecards for country office operations. The Office has developed a quarterly management financial report and supporting analysis for distribution to its regional bureaux and divisional directors. The first report, issued in September 2012, included detail on organizational assets, liabilities, income, expenses, cash and budget utilization, but no supporting analysis of the data or narrative to assist the intended audience in understanding the report or to highlight areas for the attention of management. It comprised summarized financial information at the corporate level, without breaking it down in terms of business units.

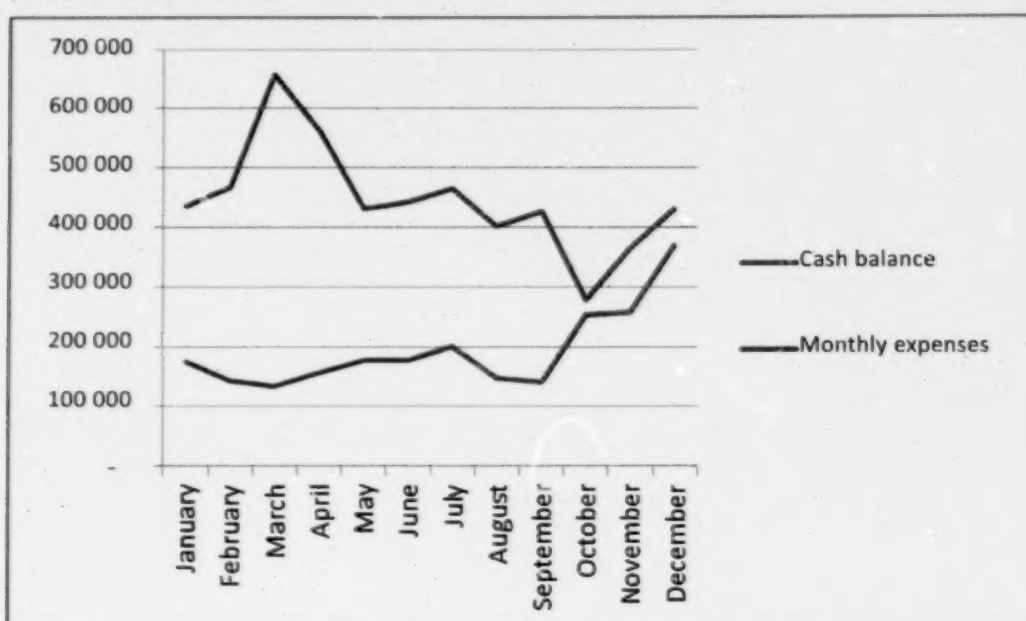
29. UNHCR is also developing monthly financial reports for country representatives, for distribution upon the closure of monthly accounts. Each report will contain a dashboard of eight key indicators, covering cash, accounts payable and receivable, inventory, property, plant and equipment, implementing partners and expenses against budget. These will be analysed against selected performance indicators to provide an at-a-glance status identifying issues for the attention of management. The reports are expected to be rolled out in the third quarter of 2013.

*Cash holdings*

30. As at 31 December 2012, UNHCR reported cash and cash equivalents of \$431.2 million, equivalent to 2.2 months of expenses. Throughout 2012, the monthly cash balances fluctuated between \$655.9 million (March) and \$279.0 million (October), providing cover for between 1.07 and 2.53 months of expenses. As shown in the figure below, monthly expenses were relatively stable, amounting on average to \$192 million, until the last three months of the year, when they significantly increased to a peak of \$369.7 million (December). This pattern of expenses and income reflects the annual nature of UNHCR programmes and activities, including emergency activities, with accelerated spending towards year-end to utilize available budgets and donor funds received late in the year.

### Analysis of monthly expenses and month-end cash balance, 2012

(Thousands of United States dollars)



Source: UNHCR financial records.

#### Bank accounts

31. In its previous reports, the Board has highlighted increased costs and exposure to fraud as a result of the management of an excessive number of bank accounts. UNHCR had 418 separate cash bank accounts as at 31 December 2012. In response to the Board's previous recommendation that it review the number of its accounts, UNHCR has reduced those managed at headquarters from 35 to 28 (22 current accounts and 6 short-term deposit accounts). In addition, UNHCR has established a target number of bank accounts for each region, closing 38 accounts identified as inactive or unnecessary. Despite this review, UNHCR still maintained 372 field bank accounts as at 31 December 2012. Of these, the Board identified 71 accounts with an average of fewer than five transactions a month. UNHCR also generally maintains at least two bank accounts for each country office: one for local currency and one for United States dollars. The Office has been leveraging developments in global banking systems to centralize payments in major currencies. From a technical perspective, a local United States dollar account may no longer be necessary for many locations.

32. The Board recommends that UNHCR: (a) review and challenge the business need for bank accounts with low levels of transactions; and (b) consider the rationale for maintaining local United States dollar bank accounts, particularly where such transactions could be processed from headquarters.

*Employee benefits liabilities*

33. For the year ended 31 December 2012, UNHCR reported employee benefits liabilities of \$570 million (compared with \$468 million for 2011). This included both in-service payments to employees and amounts payable upon completion of employment. Of this liability, some \$422 million represented after-service health insurance benefits for existing and retired staff whose salaries were paid from voluntary funds (compared with \$325 million for 2011). The liability of \$25.8 million (compared with \$25.6 million for 2011) related to 220 staff members funded from the United Nations regular budget is not included in the UNHCR financial statements, as its funding will be reflected in the financial statements of the United Nations.

*Funding of employee benefits liabilities*

34. In response to the Board's previous recommendation regarding the need to develop a policy for the funding of its end-of-service liabilities, UNHCR has, as from January 2012, charged activities an additional monthly payroll levy of 3 per cent to the base salary of all qualifying staff. This produced a \$12.9 million transfer into the Staff Benefit Fund, of which \$10.9 million funded the after-service health insurance liabilities of \$422 million. The total unfunded liability for after-service health insurance was approximately \$411 million as at 31 December 2012.

35. The UNHCR liability for untaken annual leave of \$55.1 million (compared with \$51.8 million for 2011) remains unfunded. Some 1,838 of a total of 8,400 staff (22 per cent) have accrued the maximum 60 days of annual leave that United Nations rules currently permit for carry-over to future years. The Board noted that if staff accrued a maximum of 30 days of annual leave, it could reduce the liability by as much as one third. UNHCR considers that it is unable to reduce the level of annual carry-over unless the Staff Rules are changed, but the Board nevertheless encourages UNHCR to seek ways to manage this liability more effectively.

**3. Internal controls***Internal control framework*

36. UNHCR operates a system of extensive delegations of authority from headquarters to country representatives, with heavy reliance on transactional controls such as clerical certification and approval of transactions. Previously, the Board reported that the system of delegations was not working as consistently or effectively as it should, noting examples of non-compliance during country office visits. During 2012, the Board again found non-compliance with established procedures including the following examples:

(a) In Côte d'Ivoire, approvals of inventory distributions were not properly documented or authorized, increasing the risk that inventory could be lost or misappropriated. Other control weaknesses are noted in the Board's comments on inventory management below;

(b) In Sri Lanka, annual, rather than quarterly, verification visits to implementing partners were being carried out, resulting in inadequate oversight and increasing the risk of fraud and error;

(c) There were different control frameworks at each country office for similar transactions. For example, individual and family cash payments could be processed in a number of ways but were not always subject to common controls such as reconciliation of amounts paid by banks to the amounts authorized by UNHCR.

37. In response to the Board's previous recommendation, UNHCR proposes to engage a consultant to review the financial internal control framework and its application to financial transactions and to benchmark its existing practices against those of similar devolved organizations.

38. **The Board reiterates its previous recommendation that UNHCR: (a) implement appropriate high-level financial controls for the monitoring of activities in the field, including the standardization of control frameworks for similar types of transactions, and review its existing accountability structures to ensure that an appropriate internal control framework exists and is in operation; and (b) benchmark its accountability structure against those of similar devolved organizations, working towards a framework that meets operational needs while enhancing accountability and control.**

39. The Board notes the progress made by UNHCR in increasing financial management capacity in the field. In early 2012, in response to the Board's recommendation, the High Commissioner also approved the establishment of 55 new posts across finance, project control and regional financial management to address capacity shortfalls through a phased implementation, taking account of resource availability. UNHCR reported that as at 30 June 2013, 17 of these new posts had been filled, five additional candidates have been identified and were undergoing reassignment and another six candidates were undergoing selection, recruitment or appointment.

40. **UNHCR agreed with the Board's recommendation that it establish the required number of posts for suitably qualified personnel within its finance and project control functions in the field.**

41. UNHCR noted that it was constrained by resource availability and that the approved posts were being filled through a phased approach, taking into consideration the biennial cycle as well as resource availability.

#### *Inconsistent delegation levels*

42. UNHCR financial rules require that the write-off of cash and receivables of up to \$10,000 be authorized by the Organization's Controller. All cases in excess of this amount require the approval of the High Commissioner. In contrast, UNHCR guidelines permit country representatives, with the approval of the local asset management board, to write off inventory or other equipment, such as vehicles, of up to \$150,000 in value without reference to higher authority. In the Board's view, the current scheme for the delegation of authority results in inconsistent levels of scrutiny and should be reviewed. An example of this inconsistency was noted during the 2012 audit, when the Board reviewed a case in which the High Commissioner had been personally required to write off an amount receivable of \$10,854, whereas a country representative had been able to donate inventory valued at \$190,000 to a Government.

43. The Board recommends that UNHCR review its current scheme for the delegation of authority in order to establish a consistent framework for authorizing the write-off or disposal of assets.

#### 4. Inventory management

44. As at 31 December 2012, UNHCR held inventory at 183 warehouse locations with a gross value of \$122.1 million, compared with an opening balance of \$92.5 million. Purchases for the year amounted to \$211.2 million, against distributions of \$175.7 million.

45. In August 2012, UNHCR issued its policy for the annual physical verification of inventories, which set out the requirement to ensure that the physical stock balance was correctly reported in the Management Systems Renewal Project system as at 31 December 2012. Despite the Board's recommendation that the stocktaking be performed as close to year-end as possible, UNHCR performed the physical checks in October and November 2012. As a consequence, while the physical inventory was generally accurately counted and reconciled with the accounting system as at the date of the count, the accuracy of the accounting records was not maintained until year-end.

46. The Board examined a sample of inventory items across 19 country offices and 7 central warehouses to confirm that the accounting records fairly reflected the physical stock. We found significant error resulting from a widespread failure of UNHCR offices to update the accounting systems for inventory movements since the physical stocktaking performed earlier in the year, and estimated that the overall error in the Office's financial statements would be material. As a result, the High Commissioner immediately wrote to all country representatives, drawing attention to their widespread failure to enter receipts and dispatches of inventory accurately into the Management Systems Renewal Project system and requesting their personal leadership in ensuring that the corrections would be carried out promptly.

47. In May 2013, country representatives submitted revised inventory records for the year ended 31 December 2012, resulting in a net reduction of \$18.4 million in reported inventory balances, with \$5.5 million reclassified as in transit from one UNHCR store location to other stores. The detailed analysis showed that warehouses in 54 of the 76 countries with operational warehouses had not adequately accounted for inventory movements. The most significant adjustments were required for inventory held in the Democratic Republic of the Congo, Kenya, Jordan, Libya, the Sudan and the Syrian Arab Republic, which reported a total of \$12.7 million in discrepancies. In addition, the global warehouse in Dubai, United Arab Emirates, reported discrepancies of \$2.2 million.

48. The Board found that UNHCR had effectively lost control of its inventory in Botswana, the Democratic Republic of the Congo, Libya, Tunisia and Zambia. This necessitated a detailed reconstruction of the inventory records, which identified a number of issues including the following:

(a) Two warehouses in the Democratic Republic of the Congo had been physically closed in 2010, but the Management Systems Renewal Project system reported inventory of \$185,000, and one warehouse in Libya was closed during 2012, with a reported inventory of \$1.1 million;

(b) There was no audit trail supporting issues and receipts for two warehouses in the Democratic Republic of the Congo, resulting in a write-off of \$0.57 million.

49. Similar issues were identified during our field visits to Côte d'Ivoire and Jordan, where inventory distributions from warehouses could not be reconciled in detail with inventory issued to persons of concern. The proximity of warehouses to distribution points generally mitigated against the risk of the loss or misappropriation of items. We also noted that OIOS had reported, with respect to UNHCR operations in Ethiopia, that inventory distributions of \$10 million in 2011 and 2012 were not supported by an adequate audit trail to demonstrate receipt by the intended beneficiaries.

50. The Board is concerned at the weaknesses identified in controls over inventory. The existing procedures for the management of inventory are not onerous or overly complex, and the range of inventory items managed is relatively limited. UNHCR therefore needs to identify why its offices and representatives find inventory management to be so challenging and to address the root causes of the problems in order to ensure that such a loss of control does not recur in future. UNHCR estimated external additional costs of \$60,000 were necessary for remedial action taken to correct inventory records in 2012.

**51. The Board recommends that UNHCR: (a) review its procedures for the management of inventory throughout the organization to ensure that they remain appropriate for the operating environments; (b) identify and address the reasons for the widespread non-compliance with current inventory procedures; and (c) develop and implement revised inventory procedures to ensure that physical inventory and the accounting records remain up to date and reliable.**

#### *Stocktaking procedures*

52. The annual stocktaking should function as a control to periodically confirm the accuracy of the inventory accounting records in the Management Systems Renewal Project system; it should not be a substitute for maintaining accurate accounting records throughout the year. As emphasized in both 2010 and 2011 and also in the Board's findings for the period ended 31 December 2012, it is clear that accurate inventory records are not routinely maintained.

**53. The Board recommends that, in order to maintain accurate inventory accounting records throughout the year, UNHCR implement a monthly or at least a quarterly stocktaking regime, including a full reconciliation of its inventory with the accounting system.**

#### *Warehouse utilization*

54. The Board performed an analysis of the stock holdings at warehouses and noted 41 warehouses with stock value at less than \$50,000 and another 27 with stock value at less than \$100,000. While the Board recognizes the need for UNHCR to maintain inventory holdings in remote locations to respond to the needs of persons of concern, it is unclear whether the additional costs of storage, insurance and personnel incurred in these locations represents the most effective use of the organization's resources.

**55. The Board recommends that UNHCR perform a review of low-value inventory holdings to ascertain whether there is a genuine business need to maintain them.**

*Inventory procurement*

56. The Board noted the procurement of 20 per cent more inventory than had been distributed during the year. Approximately half of inventory purchases are procured at headquarters by the Division of Emergency, Security and Supply and the Procurement Management and Contracting Service, with the remainder procured locally. Each country office is determining its inventory requirements in isolation, without reference to regional or global holdings, and is able to "call off" inventory to replenish local warehouses from the Division-managed global stockpiles without providing a forecast of demand. They decide locally which of the central warehouses to use on the basis of their past experience and high-level guidance available in the Supply Chain Manual. There is no overall guidance on procurement planning, regional inventory availability, transport options or lead times on deliveries that would enable local supply staff to make informed replenishment decisions. The Board considers that UNHCR needs to use the new information available under IPSAS to establish a stronger system for the global coordination of its inventory and integrated supply management.

**57. The Board recommends that UNHCR enhance its inventory management systems to support more informed replenishment decisions, including by alerting supply officers when inventory levels are below a designated minimum level and directing supply officers to the most efficient replenishment option.**

*Inventory holdings*

58. UNHCR purchased \$211 million in inventory in 2012. While the Office needs to hold "buffer" stock to ensure that changing demands can be met, the Board noted that the procurement of \$112 million in inventory would have maintained the required buffer stock even allowing for distributions from inventory. The procurement of significantly more (188 per cent) inventory than is required to meet immediate demands reduces the availability of working capital, restricting the ability of UNHCR to respond to new demands. The holding of excess inventory also increases the risk of obsolescence and leads to increased procurement, transport and storage overheads.

**59. The Board recommends that UNHCR, in order to achieve more efficient use of resources, develop and regularly update an organizational inventory procurement plan that: (a) considers both local and centrally managed requirements for standard inventory items; and (b) is based on past experience with demand and the most likely scenarios, while also maintaining the required level of buffer inventory.**

*Obsolete and excess inventory*

60. Obsolete and excess inventory required UNHCR to impair its valuations by some \$20.8 million as at 31 December 2012. Of this amount, \$2.4 million related to items that had exceeded their shelf life. The remaining impairment was intended to cover excess slow-moving items identified through turnover analysis.

61. The collection and analysis by the Supply Management Service of complete inventory data for the IPSAS financial statements represented the first time that the Service had reviewed the organization's holdings beyond its global stockpiles. The analysis identified where country offices were stockpiling inventory locally, resulting in excess stock. Once inventory was held at a local warehouse, it would be either distributed locally or, if no longer required, donated or disposed of without consideration of regional or global needs. For example, the Board noted that the Sri Lanka office had donated 809 tents and 1,090 stoves, with a total value of \$190,000, to the Government of Sri Lanka without considering wider organizational needs.

62. In November 2012, in response to the Board's interim findings on excess inventory at local warehouses, UNHCR developed and issued a new inventory management policy. This specified that where excess inventory had been identified, it would be made available for movement to other country locations, and gave the Supply Management Service responsibility for the oversight of local inventory holdings.

#### *Management information*

63. In 2012, UNHCR management reporting did not capture the performance of internal inventory management processes at local or global stockpiles using, for example, indicators such as inventory ageing and turnover. Data for assessing the reliability, accuracy and timeliness of suppliers was not captured; stock turnover was not routinely reviewed to identify excess stocks, nor was it used in procurement decisions; and the efficiency of local replenishment was not reviewed to consider the number and size of orders and the cost of the transport options used. While UNHCR has now started to measure excess stocks and turnover, management would benefit from a report summarizing key performance indicators.

**64. The Board recommends that UNHCR develop an inventory performance report dashboard with measurable key performance indicators for management review on a monthly basis.**

#### **5. Anti-fraud policies and procedures**

65. Each year, UNHCR reports cases of fraud and presumptive fraud to the Board. In the past three years, UNHCR has reported a total of seven cases, involving amounts totalling \$326,000. Compared with annual expenses of some \$2 billion and the high-risk operating environments involved, the levels of identified fraud are extremely low. The Board has performed a review of UNHCR policies and procedures in this area.

#### *Strategic framework for the prevention of fraud*

66. In 2008, UNHCR issued a strategic framework for addressing fraud and corruption. It was aimed at raising awareness, strengthening controls and consolidating procedures for detection, investigation and the associated disciplinary responses. The framework set out the Office's zero-tolerance approach and identified three main categories of risk while placing the onus on managers throughout the organization to identify, document and assess fraud risks and to establish appropriate prevention measures. When the strategy was issued, detailed UNHCR procedures for the reporting and investigation of acts of fraud and corruption perpetrated by partners, contractors and their employees were being

finalized. The strategy set out measures to strengthen the capacity of the Office to tackle fraud in refugee status determination and protection and was aimed at bringing consistency to the sanctions being implemented in the field against refugees involved in fraudulent activities.

67. In response to the Board's 2011 recommendation with respect to the need to review and update its anti-fraud policies and procedures, UNHCR has redrafted its 2008 framework for reissuance. The Board found, however, that the new strategy document was available only in draft form at the time of audit. Moreover, the Board found that a number of key initiatives planned under the 2008 strategy, including the conduct of a comprehensive fraud risk assessment across the organization and by partners and contractors, had not been implemented. UNHCR needs to finalize the revised strategy and consider what further measures are required in order to embed its policy in this area within the organization. Specifically, UNHCR should:

(a) Identify a fraud risk owner, or senior risk officer, at a suitably senior level responsible for the oversight and management of all such risks within UNHCR and accountable for ensuring that risks are being actively managed by representatives and other risk owners throughout the organization;

(b) As planned in 2008, perform a comprehensive organization-wide fraud risk assessment to identify UNHCR exposure. The existing framework clearly identifies some of the potential sources of risk, including actions on the part of staff, partners, contractors, refugees and other persons of concern. UNHCR needs to systematically evaluate these risks and consider how the existing control measures mitigate them;

(c) Define the Office's tolerance for different types of fraud risk, and ensure that controls are commensurate with this "risk appetite". Given the high-risk environments in which UNHCR operates, it is unrealistic to expect levels of fraud to be zero.

**68. The Board recommends that UNHCR: (a) designate a senior risk officer with a clear mandate to implement the updated anti-fraud strategic framework; (b) perform a comprehensive fraud risk assessment to identify its main areas of risk exposure; and (c) define its tolerance for the different types of fraud risk identified.**

69. UNHCR stated that while it acknowledged the importance of an updated strategic framework for the prevention of fraud, it did not accept the recommendation that it appoint a senior risk officer for this purpose, as it believed that this was not justified in the current environment. Implementation of the anti-fraud strategic framework and the assessment of comprehensive fraud risks will be part of enterprise risk management at the organizational level, with each division accountable in its respective area of responsibility. The Board does not consider that there should be a separate post of senior risk officer, but considers it important that that role be played by a suitably senior existing manager.

#### *Inspector General's Office*

70. The Inspector General's Office was designated to receive complaints or information concerning the existence of corruption or fraudulent activities committed by staff members, and it has continued to focus its investigations on internally focused staff-related conduct. During 2012, the Inspector General's Office

received some 1,154 complaints. UNHCR has informed the Board that owing to resource constraints these complaints are initially reviewed by a staff member who is between assignments. The majority of complaints (803) related to protection assistance requests from the UNHCR population of concern and 200 related to issues involving staff misconduct, with the remainder classified as a variety of other types, including grievances and the reporting of Internet scams. The Inspector General's Office reported that cases relating to protection issues involving persons of concern were generally forwarded to the relevant bureaux and desk officers at headquarters for action. Cases related to UNHCR staff members were then reviewed to determine whether formal investigation was warranted. In 2012, the Inspector General's Office opened 71 new cases; finalized 75 investigations, including some that had been opened in previous years; sent investigation reports for 18 cases to the Division of Human Resources Management; and closed 57 cases in which the allegations had been determined to be unfounded or unsubstantiated. At 31 December 2012, the Inspector General's Office had 78 active cases under investigation. This workload is the responsibility of four investigation staff, including two specialist investigators.

71. UNHCR has informed the Board that, following a review of 14 concluded cases of misconduct in 2012, one staff member was dismissed, two were separated from service, two received a written reprimand and in 9 cases the staff members had either retired, resigned or otherwise separated from service. The Board was informed that the High Commissioner had no authority over former personnel or non-UNHCR staff, and that the individuals concerned were therefore not subject to sanctions. The Board is concerned to note the relatively high number of cases in which individuals could not be sanctioned in any way.

72. As part of this work, the Board examined nine closed investigation reports completed by the Inspector General's Office, which ranged from alleged medical insurance fraud to inappropriate use of UNHCR Internet facilities. It took an average of 615 days to finalize an investigation report from the date on which the incident was first reported, with investigations ranging from 78 to 1,397 days in duration. In five of the cases examined, after an average of 616 days of investigation, the Inspector General's Office concluded that misconduct had occurred. The Inspector General's Office reported that since June 2010 it had taken an average of 182 days (6.5 months) for the Investigation Service to close an investigation; however, it had no formal performance targets for the completion of investigations. The Board also sought information on the costs of investigations and further statistical and trend information regarding the caseload managed by the Inspector General's Office. Such management information was not readily available.

73. The Inspector General's Office was subjected to an external peer review in 2008. The review resulted in a number of recommendations targeted at improving the efficiency and effectiveness of the Inspector General's Office, including that the mandate include the investigation of wrongdoing by third parties and the wider training of UNHCR staff on the role of the Inspector General's Office, and that there be appropriate recruitment policies for investigation staff and clarity as to the mandates of inspection, audit and evaluation. Given the Board's current findings and the potential for wider changes to the oversight arrangements within UNHCR, it would be beneficial to carry out a new review, including formal follow-up to the 2008 recommendations, to determine what progress has been made.

**74. The Board recommends that UNHCR seek an appropriate comprehensive independent review of the investigation function of the Inspector General's Office, to include follow-up to the previous peer review recommendations and to benchmark its current practice against appropriate standards.**

#### **6. Management of implementing partners**

75. Partnerships remain the UNHCR preferred mode of delivery for field operations. In 2012, 39 per cent (\$897.2 million) of UNHCR expenses were incurred through 983 implementing partner agreements. The Board has previously highlighted the heightened risks of fraud and error inherent in the use of implementing partners and the need therefore to ensure effective management and oversight of implementing partners. While the Board acknowledges the ongoing implementation by UNHCR of an improved risk-based approach to the management of implementing partners, it also notes the lack of formal fraud risk assessments.

**76. The Board recommends that UNHCR require country representatives to conduct fraud risk assessments in relation to all implementing partners as part of its overall risk-based approach.**

##### *Selection of implementing partners*

77. During its field visits the Board noted further developments in procedures for the selection of implementing partners. In particular, UNHCR intends to strengthen the due diligence procedures with respect to the selection of implementing partners. Henceforth, multidisciplinary country implementing partner management committees will advise representatives on the selection and retention of partners.

##### *Monitoring the expenditure of implementing partners*

78. Financial monitoring and verification visits by UNHCR continue to serve as an important control over implementing partner expenses, providing a level of assurance to management that the resources for which the Office is accountable are used for the purposes intended. As at 20 May 2013, UNHCR had received financial monitoring reports covering \$829 million in such expenditure (92.4 per cent).

79. During country office visits, the Board continued to note varying degrees of compliance with the requirement of verification. In Sri Lanka, verification visits were conducted annually, rather than before the payment of each quarterly instalment as required. In December 2012, UNHCR further enhanced implementing partner monitoring procedures and issued standardized control checklists aimed at partner verification. UNHCR expects the use of these new tools to improve compliance with the financial monitoring and verification framework.

80. For the 2012 audit cycle, the Board noted that UNHCR had received 844 audit certificates, representing 85.8 per cent of those required by the end of June 2013 and covering 78.8 per cent of implementing partner expenses incurred in 2012. The Office's analysis revealed that 70 projects had qualified opinions with a total financial impact of \$5.19 million. The Board reviewed the qualified audit reports and was satisfied that the Office's analysis of the audit reports had been robust. Given the likely level of error in the remaining modified opinions, we concluded that the total of errors was not material.

*Performance evaluation of implementing partners*

81. During the Board's country office visits, and in line with UNHCR corporate practice, the Board noted that activity reports from implementing partners were submitted on a biannual basis, whereas financial reports were provided on a quarterly basis. The review of financial reports is not always aligned or coordinated with a review of performance, providing limited documentary evidence enabling UNHCR to intervene if the partner is not performing in line with the levels of funding provided. During the Board's visits to Côte d'Ivoire and Jordan, we noted that the payment profile in agreements was not aligned with the planned activities of the partner, creating difficulties for partners in terms of planning and budgeting.

**82. The Board recommends that UNHCR: (a) analyse biannual activity reports in conjunction with financial reports to monitor how costs relate to activities carried out and to better assess whether the implementing partner is on track to meet its targets or whether UNHCR needs to intervene; and (b) more closely align instalment payments with the implementing partner's planned activities and service delivery to minimize inefficiencies or delays in programme delivery due to fluctuations in funding.**

## **7. Vehicle fleet management**

83. An efficient and effective vehicle fleet is critical to the sustainment of the global operations of the Office of the United Nations High Commissioner for Refugees. The Office's fleet comprises mainly light vehicles, such as 4x4 Land Cruisers, pickup trucks and saloons, to move staff and supplies between offices, ports of entry and refugee locations, frequently in arduous road and off-road conditions. The Board had previously observed weak expertise in fleet management and asset management more generally in country offices, exhibited by the accumulation of ageing and inefficient vehicles. Although previous reviews of fleet management, conducted by the Internal Audit Division and the UNHCR evaluation service in 1989, 2006 and 2007, identified similar deficiencies, they did not lead to substantive change.

84. The Supply Management Service of UNHCR is formally responsible for providing fleet management support to country offices. Currently, however, country offices are responsible for most fleet management functions and the support provided by the Service is limited mainly to vehicle procurement. In March 2013, UNHCR decided to radically change this model through a global fleet management project, to be implemented as from January 2014. This would place within a central function in the Supply Management Service responsibility for:

- (a) Vehicle acquisition and disposal;
- (b) Insurance;
- (c) Specialist expertise and technical support;
- (d) A system for the satellite-based tracking of vehicle movements;
- (e) The provision of standard fleet management tools and management information systems;
- (f) The rental vehicles to country operations (with the latter retaining responsibility for vehicle maintenance, fuel and deployment to operations).

85. The global fleet management project, which entails a complex business transformation, is still at an early stage. The Board's recommendations therefore address not only current issues, but also, where relevant, the implications of global fleet management. We consider that the project is, in principle, conducive to addressing many of the deficiencies that we observe in current arrangements, through much-improved management information and strengthened incentives to act on it. However, the prospects for the success of the project will depend on the quality of the details of its design and implementation.

*Developing sufficient information for the management of the fleet*

86. UNHCR currently lacks a robust and up-to-date picture of its fleet, including its performance and its operating costs. The Office estimates that its fleet consists of some 5,595 vehicles. The organization is still in transition towards full accounting of its property, plant and equipment. As a result, only vehicles procured since January 2011 are reported in its financial statements, which makes its records of older vehicles less reliable. Statistics analysing the levels of utilization of the fleet in terms of distances travelled or number of times in use, which could help identify areas across the global network in which the number of vehicles provided is excessive or inadequate, are not being compiled. Vehicle utilization data reside largely in manual records at the country office level and are often not analysed.

87. Information on operating costs is opaque, mainly because of inconsistent approaches to the coding of expenses at the country level in UNHCR financial systems and an accounting structure that does not differentiate vehicle fuel and insurance from non-vehicle costs. The Supply Management Service has estimated annual fleet costs in 2012 at between \$80 million and \$85 million, including an estimated \$25 million to \$30 million for acquisitions, with the remainder comprising operating costs, principally fuel and maintenance costs.

**88. The Board recommends that UNHCR revise its chart of accounts to separate vehicle costs from other inputs, and that it clearly communicate this change through guidance and training of staff.**

**89. The Board also recommends that UNHCR expedite its planned completion of IPSAS transitional arrangements to bring all vehicles onto the asset registers to better capture residual values and impairment.**

90. The lack of basic management information with which to manage the fleet on an informed basis is a key theme that extends throughout the Board's findings. In principle, a centrally procured fleet management information system that collects and reports data in a consistent way appears to be a cost-effective solution if it is well designed and implemented. In addition, automated satellite-based data capture will provide a more accurate picture of vehicle utilization. UNHCR estimates that while a fleet management information system will cost less than 2 per cent of annual fleet operating costs to acquire, develop and roll out, it will be an essential contributor to estimated annual fleet cost savings of between \$12 million and \$27 million after the completion of its implementation.

*Fleet management capacity*

91. At country offices, the Board noted very low levels of capacity for fleet management in terms of staff expertise, specialist guidance to inform vehicle

management, and standard tools such as templates or systems for analysing fleet performance. Few staff at the country level had formal qualifications in the area of logistics. Where relevant skills had previously existed, incumbents had been redeployed to other operations. Staff reported no central guidance on fleet management, or training, to help them carry out their responsibilities. There was as yet no comprehensive UNHCR fleet management manual. Relevant guidelines were scattered across individual corporate instructions for finance, procurement and human resources and difficult to find.

92. The Board noted the absence of meaningful management information on basic aspects of fleet utilization and performance. Some offices had developed spreadsheets for the collection of basic data on fuel consumption and distances travelled, but the Board found basic errors of computation and wildly fluctuating and erroneous results. Nor were maintenance costs per vehicle brought together with fuel records in order to identify high-cost vehicles requiring attention. Management responsibility for fleets was dispersed among country offices, administration, procurement and finance teams and, often, chief drivers. We identified no standard corporate model describing how the full range of fleet management functions should be carried out. Evidence of structured management oversight was also limited, with no regular reports on fleet performance or usage being received, considered or acted upon, other than through periodic consideration by local asset management boards for specific vehicle repair or disposal decisions.

93. **The Board recommends that UNHCR: (a) compile a fleet management manual by the end of 2014, consolidating extant office memorandums and addressing key gaps in coverage, including the fleet management practices to be followed at the country level; and (b) establish a policy stating that country fleets exceeding 30 vehicles should be managed by staff qualified in the areas of logistics and fleet management.**

94. **The Board also recommends that UNHCR deploy a standard vehicle fuel consumption and maintenance cost analysis tool to all country offices by the end of 2013, in the form of either a global fleet management project input template or an offline spreadsheet.**

*Matching country fleets with operational needs*

95. UNHCR lacks whole-life cost information regarding its vehicles. Information that it has received from other humanitarian agencies operating fleets indicates rising costs after three to five years, as components wear out and need replacement. Although it is the policy of UNHCR to replace vehicles after 5 years, the estimated average age of vehicles in the current fleet is 5.9 years.

96. The Board found variations in how country offices matched their fleets with their operational requirements. We noted in Sri Lanka that management had started to rationalize the fleet to match a much-reduced scale of country operations and funding. Disposals were proportionate to the reduction in staff numbers and office closures. The composition of the fleet had also changed, with a higher proportion of saloon cars in order to decrease staff visibility and also to offer economies compared with the previous 4x4 vehicles. Vehicle disposal in Sri Lanka has, however, been extended over the period 2012-2014, owing to constraints in terms of the local taxation of disposals. In principle, the centralization of disposals through the global fleet management project should help identify wider options for disposal.

97. In other countries, disposal has lagged, with the result that increasing numbers of old, inefficient and underused vehicles fill office compounds and depreciate in value. As at April 2013, the Supply Management Service identified some 750 vehicles that had been retired from use but were still awaiting disposal. Country teams, while responsible for administering often complex and protracted disposals, have little budgetary incentive to do so because proceeds accrue to the corporate centre rather than local operations. In principle, the global fleet management project should remove this disincentive and be conducive to improvement if the new central disposal team is sufficiently capacitated and efficient.

**98. The Board recommends that the UNHCR Division of Emergency, Security and Supply establish sufficient capacity to manage the accumulated backlog of disposals, prioritizing disposal markets and country fleets with the highest likely resale values.**

99. The Supply Management Service estimates that more than 80 per cent of the UNHCR vehicle fleet is sourced from one manufacturer, reflecting general United Nations and UNHCR corporate preferences, but that some 30 manufacturers produce the remainder. A single-supplier strategy has advantages in terms of simplified management and maintenance. The manufacturer preference had the advantage of dealer workshop support in country operations, but choices were not supported by comparative analysis of other manufacturers' models that incorporated whole-life costing and performance criteria, or by the consideration of other factors such as limited availability of the standard preferred model. For example, the emergency procurement of 14 new vehicles in response to the Syrian crisis took four months because the local distributor had been blacklisted by the United Nations; petrol models were unavailable in the UNHCR strategic supply in Dubai, United Arab Emirates, so vehicles were eventually sourced from Saudi Arabia instead. We also noted representations to the Supply Management Service by field office staff in Sri Lanka making the case for the consideration of selected alternatives from other manufacturers on cost and performance grounds. Some standard vehicle types were poorly utilized. For example, we noted a strong aversion to certain pickup vehicles, reflecting the perception that they had a very rigid and less stable suspension. In Sri Lanka, pickup utilization had been as low as 2,000 km annually, barely a sixth of the level of that of the rest of the country fleet. In principle, making vehicle selection choices at the corporate level through the global fleet management project should allow for more expertise- and evidence-based decisions than has been the norm, as long as the views of country teams and utilization data are taken into account.

**100. The Board recommends that in assuming the lead responsibility for vehicle acquisition and choices, the UNHCR Division of Emergency, Security and Supply: (a) use data on UNHCR utilization by vehicle type to identify and withdraw underused models; and (b) set the objectives of reducing the number of models in the fleet and select standard models, taking into account cost-of-use data, availability criteria and the views of country teams, particularly lead drivers.**

101. Currently, country offices experience variable and uncertain cash flow in scheduling the programme for the replacement of vehicles. The Board calculated that the average age of the Sri Lanka fleet after 18 months of rationalization would remain five years, despite the disposal of the oldest 40 per cent of the fleet, because of lack of funding for acquisitions. In principle, the internal rental model proposed under the UNHCR global fleet management project should enable country

operations to make rational choices on the basis of projected needs if the Office can manage affordability from year to year, funding the cost of new vehicles mainly from disposal proceeds. In the longer term, the net benefit of the project for UNHCR will depend on the achievement of a smaller but more intensively used fleet, potentially as small as some 4,000 vehicles (a reduction of at least 20 per cent over five years), according to Supply Management Service projections.

#### *Vehicle deployment*

102. The Board found no evidence that vehicles had been transferred from one country operation to another where they were more needed, or of systems for ensuring that this was an informed and considered process. In Jordan, the country office faced serious vehicle shortages owing to the escalation of the Syrian crisis, but did not conduct a search for surplus UNHCR vehicles in other countries. It assumed that there was a lack of vehicle capacity in Iraq, because the operation in that country was being scaled down and vehicle shortages were expected in the office in Amman. As previously noted, UNHCR may not have fully cleansed information on its vehicle fleet until 2016, when, in order to be fully IPSAS-compliant, it must have complete and accurate records of its property, plant and equipment.

**103. The Board recommends that UNHCR maintain information on vehicle utilization levels across the country network to provide a basis for consideration of redeployment between country operations.**

#### *Maintenance*

104. The Board observed less-than-optimal maintenance arrangements in Côte d'Ivoire and Sri Lanka, where vehicles in need of routine servicing were transported long distances to national capitals in the belief that local maintenance providers would be insufficiently reliable and could not supply parts of reliable quality. In Côte d'Ivoire, vehicles transported from the field office in the west to the garage in Abidjan require a full-day trip each way to cover a return journey of more than 1,000 km. Factors that call into question the cost-effectiveness and sustainability of such arrangements include an extended period out of service, excessive travel distances and travel costs, higher servicing costs and lost opportunities for drivers to communicate directly to their mechanics intimate knowledge of the handling and performance of their vehicles. In neither country did we find evidence of collaboration with other organizations managing similar local fleets in order to pool resources.

**105. The Board recommends that UNHCR include in the new fleet management manual guidance on how to assess alternatives to the use of distant garages when remote servicing can result in excessive mileage, extended vehicle downtime and high transit costs. Guidance should include requirements for:**

- (a) Periodic testing of local markets for the availability of closer commercial maintenance facilities of the requisite standard;
- (b) Periodic review of the scope for United Nations agencies, non-governmental organizations and implementing partners to procure maintenance collectively, to leverage greater bargaining power or attract reliable operators to open facilities nearby;

(c) **Consideration of the maintenance of a stock of oil and filters at the field office level to enable the most basic (category A) servicing to take place in the field.**

*Promoting safety*

106. Road traffic accidents are a major human and financial cost and operational risk and the leading cause of safety-related death and injury among United Nations system staff worldwide, accounting for 84 per cent (16) of the accidental deaths and 90 per cent (147) of the accidental injuries in 2010 (see A/66/345, para. 19). UNHCR does not collate corporate-wide information on financial losses due to traffic accidents. The organization has not self-insured, in the sense of quantifying its risks and providing a fund to meet them, but this would be a feature of the proposed global fleet management project.

107. **The Board recommends that if the global fleet management project does not proceed according to timetable, UNHCR must evaluate its insurable risks and provide either a proper self-insurance fund or commercial insurance to meet them.**

108. Although management at the country offices we visited were aware of relevant United Nations guidance, road safety risks were not being actively managed. Following driver recruitment, country offices provided only limited training to develop or refresh drivers' skills, did not periodically conduct driving-licence checks and lacked robust data with which to identify and correct such behaviours as speeding.

109. **The Board recommends that as part of the global fleet management project, UNHCR develop a vehicle safety section within the fleet management manual (a) emphasizing the need for the proactive management of vehicle safety in country offices, and (b) requiring the quarterly analysis of driver performance on the basis of satellite tracking data, such as excessive maximum and average speeds, excessive driving hours and vehicle use outside working hours.**

## 8. **Delivery of health services**

110. The 1951 Convention relating to the Status of Refugees provides that refugees should enjoy access to health services equivalent to that of the host population. In 2012, UNHCR spent \$347 million globally on health services, the sector receiving its third-highest amount of expenditure, after shelter and community services. The largest expenditures in the sector were on primary health care and drugs, delivered to minimize illness and mortality. In recent years, UNHCR has sought to enhance its management arrangements for the delivery of health services to displaced populations, and in 2012 it invited the Board to consider the progress made. The Board's examination is ongoing, having to date covered UNHCR health programmes in Côte d'Ivoire, Jordan and Uganda. The Board expects to report fully in this regard in its next report, but sets out some initial findings below for early consideration by UNHCR.

*Use of information on the health state of populations of concern*

111. UNHCR has implemented a health information system producing standardized public health data across operations. The Board found that the system was being actively used in the field and that it supported regular reporting. UNHCR is making further advances by developing an urban health information system to enable it to

better understand the particular needs of urban populations. However, health information system data relates to those patients who have been received into UNHCR-supported health facilities. Not all displaced people gain access to formal health facilities, often for reasons of distance, inaccessibility or lack of knowledge and low levels of health education. In one country, UNHCR is piloting a surveillance tool to enable it to understand the health experiences of refugees with access to government services. The Board will examine this in 2013 and undertake further work to assess how health information on wider populations might best be captured.

*Applying recognized techniques related to cost-effectiveness*

112. To date, the Board has seen little evidence that UNHCR has used tools for measuring cost-effectiveness or considered the adoption of recognized concepts in health economics, such as cost per disability-adjusted life year (DALY), used by development agencies and Governments to both identify and objectively demonstrate the most effective use of scarce resources. The Board will continue to examine the extent to which UNHCR decisions at headquarters and at the country level are informed by cost-effectiveness criteria.

**113. The Board recommends that UNHCR consider the case for establishing central guidance for country teams on cost-effectiveness criteria in health services. The Board is willing to work with UNHCR to inform its consideration of how it might do this before committing to any particular measurement framework or approach.**

114. UNHCR focuses on delivering primary health care but, in many countries, faces pressure to divert constrained resources towards relatively few applications for high-cost secondary and tertiary care, away from primary services that could benefit many more people. The Board will consider the extent to which UNHCR decisions are informed by the ongoing costs of chronic or high-value cases, across the very diverse contexts, caseload volume and mix that country teams face, before making a specific recommendation.

*Investment in prevention*

115. UNHCR health programmes that the Board has examined are focused overwhelmingly on treatment, with health facilities under acute pressure as a result of very high patient numbers. The Board has seen limited application of cost-effective preventive measures to help reduce this pressure. For example, the prevention of such conditions as malaria through proven measures such as bed nets can be highly cost-effective if well administered. The nature of prevention measures varies greatly from context to context, so the Board will undertake further work before framing recommendations.

*Delivering quality services*

116. In relation to the extent to which UNHCR is well informed with regard to the standard of the health services it is supporting and the scope for improvement, the Board noted that the Office has piloted a health scorecard system. From our initial examination, this appears to be a positive innovation.

**117. The Board recommends that UNHCR consider the wider application of its health scorecard system across the country network.**

## **D. Disclosures by management**

### **1. Write-off of losses of cash, receivables and property**

118. UNHCR informed the Board that in 2012 it had formally written off assets of \$19.2 million (compared with \$12.9 million in 2011). This balance included \$18.8 million in unpaid donor contributions, \$240,000 in implementing partner receivables and \$118,000 in other current assets, as disclosed in note 10 to the financial statements. In addition, \$3.7 million in inventory assets were written off.

### **2. Ex gratia payments**

119. UNHCR informed the Board that it had made two ex gratia payments in 2012 totalling approximately \$50,000 (compared with none in 2011). This corresponds with the Board's review of the Office's financial and management records, which did not identify any other such payments during the 2012 financial year.

### **3. Cases of fraud and presumptive fraud**

120. UNHCR reported two cases of proven financial fraud in 2012, resulting in financial losses of between \$189,240 and \$224,000 (compared with three cases accounting for losses of \$67,000 in 2011). Both involved the processing of fraudulent transactions by staff with access to banking and financial data.

121. The Inspector General's Office investigated the cases. No recommendations were made for remedial action, and both cases were reported to the national authorities through the Office of Legal Affairs at United Nations Headquarters. UNHCR has not yet assessed whether either case indicated weaknesses in its controls.

122. Other cases referred to the Inspector General's Office in 2012, which have not been fully investigated, would not result in material losses to UNHCR.

## **E. Acknowledgement**

123. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the High Commissioner, the Deputy and Assistant High Commissioners, the Controller and members of their staffs.

(Signed) Amyas Morse  
Comptroller and Auditor-General of the United Kingdom of  
Great Britain and Northern Ireland Chair of the Board of Auditors  
(Lead Auditor)

(Signed) Liu Jiayi  
Auditor-General of China

(Signed) Ludovick S. L. Utouh  
Controller and Auditor-General of the United Republic of Tanzania

30 June 2013

## Annex

### Review of the status of implementation of the Board's recommendations for the year ended 31 December 2011

1. As at 31 March 2013, of the 52 recommendations made for 2011 and previous years, 12 recommendations (23 per cent) had been fully implemented, 38 recommendations (73 per cent) were under implementation and 2 recommendations (4 per cent) had not been implemented.

#### Recommendations not yet implemented

2. The two recommendations not implemented by UNHCR relate to improved controls over assets and the updating of fraud policies and procedures.

3. The Board found insufficient progress by the Supply Management Service to use its work from 2011 to identify shortcomings in the systems and working practices used for the generation of asset data. In 2012, errors similar to those found during the 2011 audit were again encountered, particularly in relation to inventory. For example, in Côte d'Ivoire the Board observed delays of between 9 and 12 months in the recording of inventory movements on the Management System Renewal Project, the Office's enterprise resource planning system. Discrepancies identified during the Board's audit required adjustments totalling some \$19 million, including \$3.9 million in written-off inventory.

4. The Board therefore reiterates its recommendation that the Supply Management Service use its work carried out in 2011 (and 2012) to (a) identify any systematic shortcomings in existing systems and working practices, and (b) establish enhanced systems and controls for the generation of asset data.

5. Upon reviewing the status of UNHCR fraud policies and procedures, the Board found that although an early draft strategy had been prepared, it could not be considered complete, nor were the vital components in place to support it. The Board found, for example, that UNHCR had not conducted the fraud risk assessments described in its earlier 2008 fraud strategy document.

#### Recommendations partially implemented

6. Approximately 38 recommendations are considered to be under implementation, reflecting the estimated amount of time that it will take to deliver some of the far-reaching and structural changes involved. For many of the partially implemented recommendations set out in the 2011 audit report, implementation depends on ongoing medium-term projects such as the new programme for the risk-based assessment and management of implementing partners. Most of the 13 open recommendations relating to procurement (items 38 to 51) could be closed if the Supply Management Service were to finalize the planned new procurement manual and agree upon a suite of revised performance indicators. Other partially implemented recommendations have been followed up in the relevant section of the Board's report, and recommendations have been reiterated where this has been required.

7. In the 2010 audit report, the Board recommended that UNHCR quantify the expected costs and benefits when making proposals to resolve protracted refugee situations through durable solutions. UNHCR is of the view that it is not advisable

in all situations to present such a business case. In line with its solutions mandate, UNHCR committed to actively pursuing, where opportunities arise, the design and implementation of comprehensive solution strategies in close consultation with host countries, resettlement countries and donor countries as well as, where appropriate, the country of origin. Within these strategies, it will include, as appropriate, a statement on gains that could be achieved if further investments were made in solutions.

8. The Board previously recommended that UNHCR examine ways to implement risk management promptly, possibly through "light-touch" risk identification and mitigation arrangements initially not engaging all staff and country offices and focusing only on high-impact/high-probability risks identified by selected focus groups. In 2013, following pilot work in 2012, UNHCR expects to deploy the enterprise risk management system to a maximum of 10 major operations, in addition to headquarters divisions and regional bureaux.

#### **Financial monitoring and reporting**

9. Regular financial monitoring, essential to strong management and budgetary control, requires timely information with an appropriate level of detail and a supporting narrative to focus management's attention on areas of concern, unusual activity or risk. A number of steps have been taken in response to the Board's previous recommendations that UNHCR enhance internal financial reporting and develop scorecards for country office operations. The Office has developed a quarterly management financial report and supporting analysis for distribution to its regional bureaux and divisional directors. The first report, issued in September 2012, included detail on organizational assets, liabilities, income, expenditure, cash and budget utilization, but no supporting analysis of the data or narrative to assist the intended audience in understanding the report or to highlight areas for the attention of management. It comprised summarized financial information at the corporate level, without breaking it down in terms of business units.

10. UNHCR is also developing monthly financial reports for country representatives, for distribution within 12 working days of month-end. Each report will contain a dashboard of eight key indicators, covering cash, accounts payable and receivable, inventory, property, plant and equipment, implementing partners and expenses against budget. These will be analysed against selected performance indicators to provide an at-a-glance status identifying issues for the attention of management. The reports are expected to be rolled out in the third quarter of 2013.

11. The Board noted that the draft country-level reports are clearly laid out, with sufficiently detailed yet summarized information to assist decision-making. This format may be equally useful for regional bureaux and divisional directors. The Board will consider its previous recommendation fully implemented when it sees clear evidence of the regular provision of complete financial reporting to all levels of management.

#### **Integrity of accounting records**

12. In 2011, UNHCR cleansed its accounting records in preparation for the implementation of IPSAS. As a result, the total impairment of assets included in the IPSAS opening balances was some \$50.4 million. In 2012, UNHCR wrote off \$17.9 million against these allowances. In response to the Board's recommendation,

UNHCR is analysing the causes of write-offs and allowances. Monthly closure procedures are being strengthened by assigning a responsible owner to confirm that aged asset and liability balances have been reviewed and remain valid. These revised procedures are expected to be in place during the second half of 2013. Until these processes are embedded, the Board will not consider its previous recommendation to have been fully implemented.

#### **Financial management capacity**

13. The adoption of IPSAS and the increasing expenditure in recent years have accentuated the need for strong financial management throughout UNHCR. In early 2012, in response to the Board's recommendation in this regard, the High Commissioner approved the establishment of 55 new posts in the areas of finance, project control and regional financial management to address capacity shortfalls. As at 31 March 2013, five of these new posts had been filled, with 15 candidates identified and undergoing reassignment, and another four were undergoing selection, recruitment or appointment.

14. In addition to the establishment of new posts to increase financial management capacity in the field, finance at headquarters has been restructured to provide greater oversight and support in the field. Despite these measures, the Board continued to observe weaknesses in financial management in the field. In Sri Lanka, the Board determined that the financial monitoring of implementing partners was performed only annually, and in Côte d'Ivoire it determined that programme staff without appropriate training were responsible for validating the expenditure of implementing partners. The funding of implementing partners reflects an inherently higher risk of fraud and error compared with direct delivery, and it is therefore vital that UNHCR mitigate this risk through effective financial and programmatic monitoring.

#### *Property, plant and equipment*

15. The financial statements recognise \$52.3 million in tangible property, plant and equipment. This includes all land and buildings owned and all other assets acquired in 2011 and 2012 under IPSAS definitions. UNHCR considers that its historical asset records are not yet sufficiently reliable to meet the requirements of the new standards. It has therefore adopted IPSAS transitional provisions that permit a period of five years for the full recognition of property, plant and equipment, and has developed a transition plan to further cleanse its asset register within that period. Earlier cleansing of asset records would extend the benefits of enhanced asset management under IPSAS.

16. The Board reiterates its previous recommendation that UNHCR continue to cleanse its asset register, focusing initially on those assets with a residual value.

#### **Recommendations fully implemented**

17. The Board considers 12 recommendations to have been fully implemented. These relate primarily to actions taken to address deficiencies in the validation of data provided to the actuaries for determining an actuarial valuation of the employee benefit liability, and to improvements in bank reconciliation processes. The Board reiterates its recommendation that UNHCR clearly articulate the benefits of IPSAS and develop a methodology for tracking them. UNHCR has also carried out an assessment of options for the provision of internal audit services, has conducted a

review to reduce the number of bank accounts in operation and has successfully reduced the number of staff classified as between assignments. Where relevant, these matters are discussed in other sections of the present report.

18. The table below sets out the status of implementation of all of the Board's previous recommendations.

| Summary of recommendation |                                                                                                                                                                                                                                                                                                                                    | Paragraph<br>reference<br>(A/67/5/Add.5,<br>chap. II) | Financial<br>period in<br>which first<br>made | Fully<br>implemented | Under<br>implementation | Not<br>implemented | Overtaken<br>by events |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|----------------------|-------------------------|--------------------|------------------------|
| 1                         | As a matter of urgency, establish a simple organization-wide risk management approach building on existing reporting arrangements                                                                                                                                                                                                  | 13                                                    | 2010                                          |                      | X                       |                    |                        |
| 2                         | Re-establish and entrench the principles laid down in its own guidance by establishing at the country level a policy clearly specifying the circumstances in which country operations should normally commission programme and project evaluations and requiring explicit planning and budgeting for evaluation during the project | 14                                                    | 2010                                          |                      | X                       |                    |                        |
| 3                         | Review the various approaches to project tracking across its network in order to identify best practice with wider applicability and assess compatibility with the corporate information technology strategy                                                                                                                       | 14                                                    | 2010                                          |                      | X                       |                    |                        |
| 4                         | Enhance its monthly financial closure processes to include, for example, documented review of income and expenditure against budgets and sign-off by the relevant responsible officers at headquarters and in the field on the components of the trial balance for which they are responsible                                      | 16                                                    | 2010                                          |                      | X                       |                    |                        |
| 5                         | Conduct exhaustive bank reconciliations that reconcile all differences with the general ledger; undertake a reperformance of a sample of bank reconciliations                                                                                                                                                                      | 18                                                    | 2009                                          | X                    |                         |                    |                        |
| 6                         | Continue in its efforts to reduce the number of staff between assignments and not on temporary duty                                                                                                                                                                                                                                | 18                                                    | 2007                                          | X                    |                         |                    |                        |
| 7                         | Make it an explicit requirement that a comparative assessment against a "do-minimum" or "no-change" base option be included in each of the action plans it produces for internal and donor consideration on tackling protracted refugee situations                                                                                 | 19                                                    | 2010                                          |                      | X                       |                    |                        |

| Summary of recommendation |                                                                                                                                                                                                                                                 | Paragraph<br>reference<br>(A/67/5/Add.5,<br>chap. II) | Financial<br>period in<br>which first<br>made | Fully<br>implemented | Under<br>implementation | Not<br>implemented | Overtaken<br>by events |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|----------------------|-------------------------|--------------------|------------------------|
| 8                         | Supplement guidance for country offices on designing durable solutions with concise checklists, compiled in the light of project experience                                                                                                     | 19                                                    | 2010                                          |                      | X                       |                    |                        |
| 9                         | Intensify the frequency and depth of the managerial review of IPSAS progress                                                                                                                                                                    | 19                                                    | 2010                                          | X                    |                         |                    |                        |
| 10                        | Review and cleanse its accounting records, including all asset and liability balances, and enhance its month-end closure procedures in order to fully reconcile all the accounts and maintain the integrity of accounting records               | 19                                                    | 2010                                          |                      | X                       |                    |                        |
| 11                        | Enhance its organization-wide change management programme for IPSAS, identifying how senior management in each business unit must take ownership of and drive the delivery of the intended benefits during and after IPSAS implementation       | 19                                                    | 2010                                          | X                    |                         |                    |                        |
| 12                        | Streamline its performance measurement to focus on mission-critical activities in a more comprehensive way, embracing output volumes, service quality and efficiency of delivery                                                                | 19                                                    | 2010                                          |                      | X                       |                    |                        |
| 13                        | Develop cost-based information to improve the evidence base for allocation decisions and provide a stronger link to enforce accountability                                                                                                      | 19                                                    | 2010                                          |                      | X                       |                    |                        |
| 14                        | Develop a summarized scorecard to enhance senior management review of performance and risks at the country and corporate levels, aligned with the development of the Focus system, in support of the implementation of results-based management | 19                                                    | 2010                                          |                      | X                       |                    |                        |
| 15                        | Adopt a risk-based approach to managing partners on the basis of clearly defined requirements, objective and well-evidenced risk assessment of partners and robust arrangements to monitor consistent application by country offices            | 19                                                    | 2010                                          |                      | X                       |                    |                        |
| 16                        | Broaden the range of indicators used in partner agreements through revised guidance and ensure that performance frameworks are subjected to management authorization before agreements are signed                                               | 19                                                    | 2010                                          |                      | X                       |                    |                        |

| <i>Summary of recommendation</i>                                                                                                                                                                                                                                                                                                                                                                        | <i>Paragraph reference (A/67/5/Add.5, chap. II)</i> | <i>Financial period in which first made</i> | <i>Fully implemented</i> | <i>Under implementation</i> | <i>Not implemented</i> | <i>Overtaken by events</i> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------|--------------------------|-----------------------------|------------------------|----------------------------|
| 17 Review and reconcile the management letters issued by the independent auditors against implementing partner financial monitoring reports, and undertake follow-up action where appropriate                                                                                                                                                                                                           | 19                                                  | 2010                                        | X                        |                             |                        |                            |
| 18 Review working capital requirements to consider the adequacy of the current \$50 million ceiling, and manage programmes and cash flows in order to maintain an average unencumbered cash holding of no more than two months of expenditure                                                                                                                                                           | 26                                                  | 2011                                        |                          | X                           |                        |                            |
| 19 Examine and address the reasons for deficiencies in country office financial management and reporting capacity                                                                                                                                                                                                                                                                                       | 29                                                  | 2010                                        |                          | X                           |                        |                            |
| 20 Enhance internal financial reporting by developing an understanding of the key information needs at each level of management, to be presented in a dashboard with sufficient narrative to focus attention as appropriate                                                                                                                                                                             | 30                                                  | 2011                                        |                          | X                           |                        |                            |
| 21 Analyse the causes of write-offs and allowances for doubtful accounts, and introduce monthly reviews of balances to safeguard assets                                                                                                                                                                                                                                                                 | 34                                                  | 2011                                        |                          | X                           |                        |                            |
| 22 Develop appropriate job descriptions and prioritize the recruitment of suitably qualified staff for appointment to the approved finance and project control posts                                                                                                                                                                                                                                    | 39                                                  | 2011                                        |                          | X                           |                        |                            |
| 23 Implement high-level controls for monitoring field activities, and review the existing accountability structures to ensure that the internal control framework is appropriate and operating. The accountability structure should be benchmarked against those of similar devolved organizations, working towards a framework that meets operational needs while enhancing accountability and control | 46                                                  | 2011                                        |                          | X                           |                        |                            |
| 24 Review and update anti-fraud policies and procedures to ensure that fraud detection and monitoring systems are appropriate, and develop guidance that addresses anti-money laundering                                                                                                                                                                                                                | 48                                                  | 2011                                        |                          |                             | X                      |                            |
| 25 Develop robust and documented quality control procedures to validate the integrity of the data supplied to its actuaries concerning staff end-of-service liabilities                                                                                                                                                                                                                                 | 52                                                  | 2010                                        | X                        |                             |                        |                            |

| Summary of recommendation |                                                                                                                                                                                                                                                                                                          | Paragraph<br>reference<br>(A/67/5/Add.5,<br>chap. II) | Financial<br>period in<br>which first<br>made | Fully<br>implemented | Under<br>implementation | Not<br>implemented | Overtaken<br>by events |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|----------------------|-------------------------|--------------------|------------------------|
| 26                        | Centralize banking arrangements at headquarters in order to gain maximum leverage from its bankers, and subject all accounts to regular and critical challenge, closing any unnecessary bank accounts immediately                                                                                        | 59                                                    | 2010                                          | X                    |                         |                    |                        |
| 27                        | Build on the progress made in performing daily bank reconciliations to explore the costs and benefits of extending this practice across major bank accounts outside headquarters                                                                                                                         | 63                                                    | 2011                                          | X                    |                         |                    |                        |
| 28                        | Develop training on month-end and year-end cut-off in bank reconciliation processes and test checks compliance, including through the monthly review of bank reconciliations to ensure that transactions are posted to the correct financial period, and, during 2012, address any identified weaknesses | 66                                                    | 2011                                          | X                    |                         |                    |                        |
| 29                        | Review the useful economic lives of assets, in particular vehicles in the light of the proposed fleet management policy under development                                                                                                                                                                | 70                                                    | 2011                                          |                      | X                       |                    |                        |
| 30                        | Monitor compliance by country office with the terms of rights-of-use agreements, and issue instructions to representatives reasserting their responsibility for maintaining accurate and up-to-date records of assets lent to implementing partners                                                      | 73                                                    | 2011                                          |                      | X                       |                    |                        |
| 31                        | Intensify its efforts to cleanse the data supporting non-expendable valuations, and enhance the guidance and information on asset management provided to country offices                                                                                                                                 | 76                                                    | 2010                                          |                      | X                       |                    |                        |
| 32                        | Regularly review all inventory items for obsolescence and damage, and write down the values accordingly                                                                                                                                                                                                  | 76                                                    | 2010                                          |                      | X                       |                    |                        |
| 33                        | Use the work performed in 2011 on cleansing asset data to identify any systematic shortcomings in systems and working practices, and establish enhanced systems and controls for generating asset data                                                                                                   | 77                                                    | 2011                                          |                      |                         | X                  |                        |

| Summary of recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Paragraph<br>reference<br>(A/67/5/Add.5,<br>chap. II) | Financial<br>period in<br>which first<br>made | Fully<br>implemented | Under<br>implementation | Not<br>implemented | Overtaken<br>by events |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|----------------------|-------------------------|--------------------|------------------------|
| 34 Impose mandatory requirements on its country operations to consistently:<br>(a) document their justification for partner selection; (b) formally assess the market for alternative partners at regular intervals; and (c) consider alternative commercial procurement whenever seeking a market-traded service                                                                                                                                                                             | 83                                                    | 2010                                          |                      | X                       |                    |                        |
| 35 Establish common checklists that can be used by officers when undertaking implementing partner verification and monitoring visits                                                                                                                                                                                                                                                                                                                                                          | 84                                                    | 2010                                          |                      | X                       |                    |                        |
| 36 Continue to cleanse the asset register, focusing initially on those assets with a residual value                                                                                                                                                                                                                                                                                                                                                                                           | 97                                                    | 2011                                          |                      | X                       |                    |                        |
| 37 Clearly identify the objectives and envisaged benefits of the IPSAS project, and develop a methodology to track and manage benefits realization                                                                                                                                                                                                                                                                                                                                            | 100                                                   | 2010                                          | X                    |                         |                    |                        |
| 38 Consistently apply the supply function structure and accountability lines recommended by the Supply Management Service, applied in some countries, throughout the UNHCR network                                                                                                                                                                                                                                                                                                            | 106                                                   | 2011                                          |                      | X                       |                    |                        |
| 39 Assess the need for basic induction training in procurement or supply management among all supply officers, giving priority to those in a management role, and determine the number and distribution of supply staff holding relevant and recognized professional procurement qualifications and consider the extent to which the number of supply staff should be increased                                                                                                               | 115                                                   | 2011                                          | X                    |                         |                    |                        |
| 40 Prioritize: (a) improved recording on the Management Systems Renewal Project system or, if this is not achieved, the use of shipment tracking to provide viable delivery time measures; (b) comparability between emergency and non-emergency delivery performance measures; (c) capturing aspects of professional competence within the staffing indicators; and (d) cascading the corporate key performance indicators to form a basis for country-level reporting on supply performance | 120                                                   | 2011                                          |                      | X                       |                    |                        |

| <i>Summary of recommendation</i> |                                                                                                                                                                                                                                                           | <i>Paragraph<br/>reference<br/>(A/67/5/Add.5,<br/>chap. II)</i> | <i>Financial<br/>period in<br/>which first<br/>made</i> | <i>Fully<br/>implemented</i> | <i>Under<br/>implementation</i> | <i>Not<br/>implemented</i> | <i>Overtaken<br/>by events</i> |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------|------------------------------|---------------------------------|----------------------------|--------------------------------|
| 41                               | In guidance issued to country-level field officers, reiterate the need to assess the scope for grouping orders, identifying the most beneficial routes of supply and, where appropriate, the development of national framework agreements                 | 124                                                             | 2011                                                    |                              | X                               |                            |                                |
| 42                               | Investigate the potential to institute quantified analysis of warehouse requirements for all major non-food items and material deliveries that are in the pipeline in the Management Systems Renewal Project system                                       | 130                                                             | 2011                                                    |                              | X                               |                            |                                |
| 43                               | Require supply staff to verify that there is sufficient warehouse capacity before ordering large quantities of goods                                                                                                                                      | 131                                                             | 2011                                                    |                              | X                               |                            |                                |
| 44                               | Implement plans to create reliable supplier performance information, and systematically use this information to manage supplier performance and contracts and make evidence-based decisions in awarding framework agreements                              | 138                                                             | 2011                                                    |                              | X                               |                            |                                |
| 45                               | Define the information to be collated and retained for tracking supplier performance in terms of the timeliness, quality and completeness of consignment delivery, and develop an easy-to-use template for supply units to capture such data consistently | 142                                                             | 2011                                                    |                              | X                               |                            |                                |
| 46                               | Emphasize in guidance that collective uncertainties will tend to extend practical lead times for medical supplies beyond theoretical durations, in some cases demanding earlier requisitioning                                                            | 149                                                             | 2011                                                    |                              | X                               |                            |                                |
| 47                               | Require country operations to assess whether they have the necessary expertise and are of a sufficient scale to act as the procurer of medical supplies and whether an alternative agency is better placed to procure such specialist items               | 150                                                             | 2011                                                    |                              | X                               |                            |                                |
| 48                               | Amend its Supply Manual to require country supply teams to regularly market-test key locally procured services according to specific cycles                                                                                                               | 155                                                             | 2011                                                    |                              | X                               |                            |                                |

| Summary of recommendation        |                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Paragraph<br>reference<br>(A/67/5/Add.5,<br>chap. II) | Financial<br>period in<br>which first<br>made | Fully<br>implemented | Under<br>implementation | Not<br>implemented | Overtaken<br>by events |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------|----------------------|-------------------------|--------------------|------------------------|
| 49                               | Develop a clear strategy for extending the range of support to the field for the procurement of key services based on: analysis of the extent of expenditure on services; analysis of the extent to which global suppliers have a market presence in key UNHCR locations; and feedback from supply officers in the field on priorities for the establishment of global framework agreements                                                               | 158                                                   | 2011                                          |                      | X                       |                    |                        |
| 50                               | Ensure that the strategy for contracting services incorporates: clear prioritization as to which services will be examined and tested in each year from 2012 to 2015; and approval from the Contracts Committee of the choices made, and the commitment of in-house and consultancy resources to developing and letting frameworks                                                                                                                        | 160                                                   | 2011                                          |                      | X                       |                    |                        |
| 51                               | Where global framework agreements are not feasible, consider the production of generic service specifications for adaptation by local supply officers on a country-by-country basis                                                                                                                                                                                                                                                                       | 163                                                   | 2011                                          |                      | X                       |                    |                        |
| 52                               | Perform a comprehensive appraisal of the provision of internal audit services, examining the costs and benefits of a range of possible options for addressing the weaknesses identified; and, on determining the preferred response, develop a full business case and timetable for the implementation of revised arrangements that preserve the current strengths and ensure the continuation of internal audit activity through any transitional period | 187                                                   | 2011                                          | X                    |                         |                    |                        |
| <b>Total</b>                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                       |                                               | <b>12</b>            | <b>38</b>               | <b>2</b>           | <b>0</b>               |
| <b>Percentage share of total</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                       |                                               | <b>23</b>            | <b>73</b>               | <b>4</b>           | <b>0</b>               |

### Chapter III

#### Statement of the responsibilities of the High Commissioner and approval and certification of the financial statements

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the accounts of the voluntary funds administered by the High Commissioner.

To fulfil this responsibility, the Office of the High Commissioner operates within prescribed accounting policies and standards, and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the Board of Auditors during their respective audits.

In this context, the financial statements contained in chapter V, comprising statements I to V and the supporting notes, were prepared in accordance with the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.10) and the International Public Sector Accounting Standards. In management's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2012 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards.

The accounts are hereby:

Approved:

(Signed) António **Guterres**

United Nations High Commissioner for Refugees

Certified:

(Signed) Kumiko **Matsuura-Mueller**

Controller and Director

Division of Financial and Administrative Management

## Chapter IV

### Financial report for the year ended 31 December 2012

#### A. Introduction

1. The United Nations High Commissioner for Refugees has the honour to submit the financial report and financial statements on the accounts of the voluntary funds administered by him for the year ended 31 December 2012, in accordance with United Nations financial regulation 6.5 and article 11 of the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.10). The financial results reported relate to the activities of the Office of the United Nations High Commissioner for Refugees (UNHCR).

2. The financial report provides financial information relating to the voluntary funds administered by the High Commissioner, in accordance with the International Public Sector Accounting Standards. The voluntary funds include the Annual Programme Fund, the Global Reintegration Projects Fund, the Global Internally Displaced Persons Projects Fund, the Junior Professional Officers Fund, the Staff Benefits Fund, the Medical Insurance Plan and the Working Capital and Guarantee Fund. It presents an overview of the operational context, financial analysis and budgetary performance by major activity groupings, highlighting trends and significant changes.

3. The financial report is designed to be read in conjunction with the financial statements, consisting of five statements and supporting notes.

#### B. Operational context and activities overview

4. During the reporting period, UNHCR continued to carry out its primary mandate, which is to safeguard the rights and well-being of refugees and other persons of concern. It endeavoured to improve the lives of more than 35.8 million persons of concern: refugees, stateless persons, internally displaced persons and returnees.

5. The year 2012 was an extraordinarily challenging year for UNHCR. The world witnessed a series of refugee crises unparalleled in recent history. These had a dramatic impact on the lives of those forced to flee in search of refuge, on the countries that received them and on the communities that generously hosted them. More than 900,000 people fled across borders from the Democratic Republic of the Congo, Mali, the Sudan and the Syrian Arab Republic. These situations placed huge demands on UNHCR in respect of the deployment of staff, logistics and overall resources.

6. Many of the humanitarian crises that had begun in 2011 in Africa and the Middle East intensified, and new emergencies erupted, in 2012. UNHCR deployed a total of 435 emergency staff and standby partners to major operations such as those relating to the situation in the Syrian Arab Republic (in Iraq, Jordan, Lebanon, the Syrian Arab Republic and Turkey), the situation in Mali (in Burkina Faso, Mali, Mauritania, Niger and Senegal) and the situation in the Democratic Republic of Congo (in Rwanda and Uganda), as well as to the operations in Ethiopia, Kenya and South Sudan. Particular attention was given to these operations and others in critical

sectors of protection and assistance, including water and sanitation, nutrition, food security, education, and response to sexual and gender-based violence.

7. As the Office depends primarily on voluntary contributions, activities are implemented on a step-by-step basis as funds are made available. Plans needed to be revised and updated to reflect the new emerging priorities and to meet the assessed needs, taking into account resource constraints. This was particularly challenging during the reporting year 2012. In recent years, the world has witnessed a multiplication of new crises and the persistence of chronic displacement situations. Against this background, international solidarity is vital to ensure the protection of those fleeing in search of refuge and to provide the resources needed to enable UNHCR to deliver on its mandate.

8. In 2012, of the total resources of \$4,255.6 million estimated by UNHCR to be needed to address the needs of 35.8 million persons of concern, the Office implemented activities amounting to \$2,357.7 million, against available funds of \$2,596.5 million (see table IV.1). The delivery of services to persons of concern has been based on its global strategic priorities: a favourable protection environment, fair protection processes and documentation, security from violence and exploitation, basic needs and services and durable solutions.

9. The Office has continued to enhance accountability and transparency in financial reporting. In accordance with General Assembly resolution 60/283, adopted in July 2006, by which the Assembly approved the adoption of IPSAS by the United Nations, UNHCR made the transition from the United Nations system accounting standards to IPSAS on 1 January 2012.

### **C. Implementation of the International Public Sector Accounting Standards**

10. The 2012 financial statements are the first to have been prepared in accordance with IPSAS.

11. The UNHCR transition to IPSAS was far more complex than initially envisaged, since modified cash basis accounting had been in place since 1950. The highly dynamic and decentralized business model of UNHCR posed additional challenges, resulting in delays in meeting the initial target implementation date of 2010.

12. By 31 December 2011, a solid foundation for IPSAS implementation was in place. The financial rules had been revised to reflect consistency with IPSAS and had been promulgated by the High Commissioner in a timely manner, and accounting policies had been issued to apply relevant IPSAS standards. To this end, the General Assembly, by its resolution 66/247, authorized UNHCR to apply *mutatis mutandis* the Financial Regulations and Rules of the United Nations (ST/SGB/2003/7 and Amend.1) to the accounting processes and financial reporting of its voluntary funds, for the sole purpose of the timely implementation of IPSAS by the Office. In the process, UNHCR actively consulted with and received guidance and advice from the Board of Auditors in respect of accounting policies, transition plans, emerging issues and risks.

13. The adoption of IPSAS represents a best management practice and will assist in keeping up to date with the latest developments in financial matters. It is

recognized that while a solid foundation for IPSAS implementation is in place, UNHCR needs to make continuous efforts to realize the full benefits of the Standards over the long term and ensure that senior management in every business unit takes ownership and drives the delivery of the intended benefits of IPSAS implementation.

#### **Summary of changes to the financial statements**

14. Under IPSAS, the accrual basis of accounting is implemented, which is a significant change from the modified cash accounting basis applied under United Nations system accounting standards. Accrual accounting is based on the recognition of transactions and events when they occur, so that they are recorded in the accounts and reported for the financial statements of the financial periods in question.

15. UNHCR now reports the value of both tangible and intangible assets on the face of the financial statements. Under the United Nations system accounting standards, these assets were recorded as expenditure on acquisition, and, with the exception of land and buildings (which were previously reported in the statement of assets, liabilities and fund balances), only some of these assets were reported in the notes as non-expendable properties.

16. With respect to revenue, multi-year contributions and other donor agreements are recognized in full in the first year, unless specific conditions are attached. In-kind contributions, whether of goods or of services, are also fully recognized as revenue.

17. Expenses relating to goods and services are recognized in the financial statements only when they have been received and accepted by the organization, not when commitments are made.

18. In previous years, the principal financial statements (statements I and II) were presented by fund. As from the financial period ended 31 December 2012, in accordance with IPSAS, the principal financial statements (statements I and II) show the total consolidated position of UNHCR, while the details by fund are provided in the notes to the financial statements. The implementation of IPSAS currently has no impact on the preparation of the budget, which continues to be formulated and presented on a modified cash basis.

#### **Benefits of the adoption of IPSAS**

19. The adoption of IPSAS has resulted in multiple benefits for the organization that could be classified under two major areas: (a) benefits in financial management and reporting; and (b) benefits to operations.

20. The main benefits relating to financial management and reporting are as follows:

(a) The quality and transparency of the information presented in the financial statements have been enhanced. Assets, liabilities, revenue and expenses are captured more comprehensively and accurately, leading to an improved reflection of the overall financial performance and position of the organization, which in turn will facilitate better-informed decisions;

(b) The implementation of IPSAS has promoted cross-organizational awareness of the need for increased discipline in the recording and reporting of financial transactions, which in turn has led to improved internal controls;

(c) The adoption of IPSAS has provided the opportunity to transfer knowledge to staff through specialized training and to further build staff capacity in financial management.

21. Benefits for operations include the following:

(a) *Improved management of inventories.* One of the core UNHCR activities is the distribution of goods to persons of concern. For that purpose, UNHCR currently has 190 warehouses around the world. The management of inventories has been significantly strengthened, which in turn is improving logistics and the procurement plan and, ultimately, will lead to more efficient use of the organization's resources;

(b) *Better control, safeguarding and oversight of property, plant and equipment.* An improved asset register, in line with updated policies and procedures, has allowed for better asset management and oversight, which in turn will yield efficiencies in asset management;

(c) *Real-time and more appropriate recognition of expenses.* As noted in paragraph 17 above, expenses are recognized in the financial statements only when the related goods or services have been received and accepted by the organization, not when commitments have been made (as was the case under the United Nations system accounting standards). This in turn leads to improved management of resources, with more accurate data on programme implementation.

#### **D. Financial analysis**

22. The previous audited financial statements, for the year ended 31 December 2011, were prepared and presented based on the basis of the United Nations system accounting standards. As part of the implementation of IPSAS, the closing balances of all assets and liabilities must be restated so as to comply with the new IPSAS accounting policies. The total fund balances and reserves at 31 December 2011, reported under United Nations system accounting standards, showed an overall deficit of \$161.4 million. The restatement adjustment as at 1 January 2012 amounted to an overall increase in fund balances and reserves of \$1,089.9 million, resulting in a restated opening balance as at 1 January 2012 of \$928.5 million (see note 12, "Opening balances adjustments"). The most significant adjustments refer to the first-time recognition of voluntary contributions confirmed by donors in writing (\$733.5 million) and inventory (\$92.5 million), as well as adjustments to property, plant and equipment (\$52.3 million) and the cancellation of unliquidated obligations relating to the procurement of goods and services that had not been delivered as at 31 December 2011 (\$205.8 million).

23. The overall financial position of UNHCR remained solid at the end of 2012. The cumulative result of the Office's performance was that, as at 31 December 2012, UNHCR had \$998.0 million in total fund balances and reserves (see statement of financial position (statement I)), representing an increase of \$69.5 million compared with the restated opening balance. This increase was a net result of the surplus for the year of \$130.9 million, plus the funding of long-term employee benefits of

\$9.6 million, minus the loss arising from the actuarial valuation of after-service health insurance of \$71 million.

24. The level of net current assets (current assets less current liabilities) was \$1,216.7 million as at 31 December 2012, with a current ratio (current assets to current liabilities) of 9.2, indicating strong short-term liquidity.

25. Cash holdings (cash, cash equivalents and deposits) amounted to \$431.2 million (26.2 per cent of total assets as at 31 December 2012), a decrease of \$103.7 million compared with \$534.9 million at the start of the year. The statement of cash flow (statement IV) shows that the decrease was due mainly to cash outflows from operating activities (\$36.4 million) and investments in property, plant and equipment and intangible assets (\$67.3 million). Of the total cash holdings of \$431.2 million, 25.9 per cent (\$111.5 million) related to non-operational cash holdings, including the Working Capital and Guarantee Fund, the Medical Insurance Plan, the Junior Professional Officers Fund and the Staff Benefits Fund (see table 3.1.2). The balance of \$319.7 million was available for operational activities and was equivalent to 1.7 months of operational needs, which is within the limits recommended by the Board of Auditors in its report for the year ended 31 December 2011 (A/67/5/Add.5).

26. The overall level of inventories increased by \$29.6 million, from \$92.5 million as at 1 January 2012 to \$122.1 million as at 31 December 2012 (net of allowance for obsolescence; see note 3.3). The increase reflects the operational growth during the year. In 2012, inventory procured amounted to \$211.2 million and inventory distributed to beneficiaries totalled \$175.7 million, with an inventory turnover ratio of 1.64.

27. Property, plant and equipment increased from \$52.3 million as at 1 January 2012 to \$99.7 million as at 31 December 2012. Motor vehicles procured during the year accounted for most of this increase (\$46.6 million). The relative amount acquired in 2012 compared with the opening balance is to be interpreted with caution, as the organization has invoked the transitional provision under International Public Sector Accounting Standard 17 (see note 3.5). Intangible assets have been recognized, for the first time, in the amount of \$5.5 million.

28. UNHCR liability for employee benefits amounted to \$570.2 million as at 31 December 2012, of which \$72.4 million constituted a current liability and \$497.8 million a non-current liability. "Employee benefits" refers to short-term benefits, post-employment and other long-term benefits, as shown in table 3.8.1. The two largest components, after-service health insurance (\$421.6 million) and repatriation benefits (\$83.8 million), have been determined by an independent actuary. Actuarial valuations are undertaken every year, with the most recent valuation having been completed as at 31 December 2012. The value of employee benefits liabilities established by the actuary as at 31 December 2012 amounted to \$505.4 million. This resulted in an actuarial loss for after-service health insurance of \$71 million, which has been charged directly to reserves, as shown in statement III. The principal reason for this actuarial loss for after-service health insurance was the reduction in the discount rate from 5.1 per cent in December 2011 to 3.3 per cent in December 2012.

29. In 2011, the Standing Committee of the Executive Committee of the Programme of the High Commissioner approved a funding plan to provide for

unfunded after-service health insurance liabilities, consisting of an annual charge of 3 per cent of net base salary, with effect as from 1 January 2012. In 2012, UNHCR funded \$10.9 million for after-service health insurance by charging the relevant funds and projects. The unfunded balance of \$410.7 million is reflected as a liability in the Staff Benefits Fund.

30. Reserves and fund balances for the organization at year-end stood at \$998.0 million. This was a net result of accumulated fund balances and reserves, the Working Capital and Guarantee Fund, the Medical Insurance Plan and the Staff Benefits Fund, as described above.

31. The accumulated fund balances and reserves amounted to \$1,461.4 million, which included the Annual Programme Fund (\$1,311.3 million), which in turn included the operational reserve of \$10 million and the reserve for new or additional mandate-related activities of \$20 million. Also included in the accumulated fund balances and reserves were the Reintegration Projects Fund, the Internally Displaced Persons Projects Fund, the United Nations Regular Budget Fund, the Junior Professional Officers Fund and the special account for the Common Humanitarian Pipeline.

32. As at 31 December 2012, the Working Capital and Guarantee Fund had a balance of \$50 million and the Medical Insurance Plan had a balance of \$35.5 million.

33. In 2012, UNHCR did not borrow from the Central Emergency Response Fund, created by the General Assembly in 1992 for use by operational organizations in the early stages of emergencies.

34. In terms of financial performance, UNHCR ended the year with a net surplus (revenue minus expenses) of \$130.9 million. The surplus is attributed to the various funds and reserves maintained by UNHCR, including the Annual Programme Fund, the Working Capital and Guarantee Fund, the Medical Insurance Plan and the Staff Benefits Fund. The distribution of the surplus is shown in the statement of changes in net assets (statement III).

35. Total revenue of \$2,436.9 million includes voluntary contributions from donors, including in-kind contributions and regular budget from the United Nations (see note 5). Total revenue includes voluntary contributions of \$659.2 million confirmed by donors (in writing) that relate to future years (2013-2016). The year 2012 was characterized by historically low interest rates in respect of the United States dollar and the euro. This, combined with the organization's investment management objective of emphasizing capital preservation and liquidity over the rate of return, explains the modest interest income of \$1.8 million generated during the year. Total expenses for the same period amounted to \$2,305.9 million, as detailed in the statement of financial performance (statement II).

36. For the first time, the financial statements present information by segment, in accordance with IPSAS. A segment is a distinguishable activity or group of activities for which information is reported separately. The segment reporting is presented in note 8.

## E. Programme budget performance highlights

37. While IPSAS has been implemented in the financial statements, the programme budget of UNHCR continues to be formulated and presented on a modified cash basis. Therefore, for the purpose of budgetary management and performance analysis, expenses are translated into an equivalent basis. A summary of the comparison of budget and actual amounts is shown in statement V.

38. All figures quoted in this section as expenditure, income or funds available refer to modified-cash-basis figures, comparable with budgets and exclusive of the Working Capital Fund, the Staff Benefits Fund, the Medical Insurance Plan and any special accounts.

39. The UNHCR global needs assessment budget is formulated on the basis of assessed needs, which is a unique feature within the United Nations system of organizations. An assessment of the needs of persons of concern to UNHCR is made, which serves as the basis for the formulation of the programme budget.

40. Subsequent to the approval of the budget by the Executive Committee, a global appeal is launched for fundraising purposes. The High Commissioner authorizes the allocation of funds for the implementation of programmes and projects on the basis of the availability of funds. During the implementation period, the High Commissioner may revise the budget with supplementary budgets in order to meet emerging situations.

41. The initial budget approved by the Executive Committee for 2012 amounted to \$3,591.2 million, and the Executive Committee subsequently approved a revised budget of \$4,052.6 million. The final budget of \$4,255.6 million represents the approved revised budget and the supplementary budgets, amounting to \$203 million.

42. Resource estimates based on operationally assessed needs have reflected a steady increase, from \$3,288.7 million in 2010 to \$3,821.7 million in 2011 (a 16 per cent increase) and reaching more than \$4,255.6 million in 2012 (an additional 11 per cent increase).

43. The total implementation level has more than doubled over the past seven years, from \$1,100.7 million in 2006 to \$2,357.7 million in 2012.

44. Resource requirements of UNHCR are grouped under each of the four main programme pillars: pillar 1, global refugee programme; pillar 2, global stateless programme; pillar 3, global reintegration projects; and pillar 4, global internally displaced persons projects.

45. Table IV.1 shows the breakdown of total requirements, funds available and expenditure by pillar, with the United Nations Regular Budget Fund and the Junior Professional Officers Fund included under pillar 1. The difference between the total requirements for 2012 (global needs assessment budget) and the funds available, representing the unmet needs of persons of concern to UNHCR in 2012, amounted to \$1,661.8 million.

Table D.1  
**Total requirements, funds available and expenditure, 2012**

(Millions of United States dollars)

|                                                     | <i>Pillar 1<sup>a</sup></i> | <i>Pillar 2</i> | <i>Pillar 3</i> | <i>Pillar 4</i> | <i>Total</i> |
|-----------------------------------------------------|-----------------------------|-----------------|-----------------|-----------------|--------------|
| Total requirements (global needs assessment budget) | 3 272.4                     | 62.1            | 255.4           | 665.7           | 4 255.6      |
| Funds available                                     | 2 085.0                     | 35.2            | 118.4           | 355.2           | 2 593.8      |
| Expenditure                                         | 1 861.1                     | 34.7            | 118.4           | 343.5           | 2 357.7      |
| Carry-over                                          | 223.9                       | 0.5             | —               | 11.7            | 236.1        |
| Expenditure on total requirements (percentage)      | 57                          | 56              | 46              | 52              | 55           |
| Expenditure on funds available (percentage)         | 89                          | 99              | 100             | 97              | 91           |

<sup>a</sup> Pillar 1 is inclusive of the United Nations Regular Budget Fund, the Junior Professional Officers Fund, the operational reserve and the reserve for new or additional mandate-related activities.

46. The supplementary budgets established in 2012 pertained to emergency response to the situation in the Sudan; emergency response to the situation in Mali; emergency response to the situation in the Syrian Arab Republic; food assistance to Iraqi and non-Iraqi urban refugees; the refugee status determination project at Camp New Iraq; emergency response to internally displaced persons in southern Yemen; and response to the situation in the Democratic Republic of the Congo.

47. Total expenditure for 2012 amounted to \$2,357.7 million, compared with \$2,181.1 million in 2011, an increase of \$176.6 million (or 8 per cent). Figure I provides the distribution of 2012 expenditure by pillar, and Figure II is a graphic illustration of annual budget expenditure over the past seven years.

**Figure I**  
**Expenditure, 2012: distribution by pillar**  
 (Percentage)

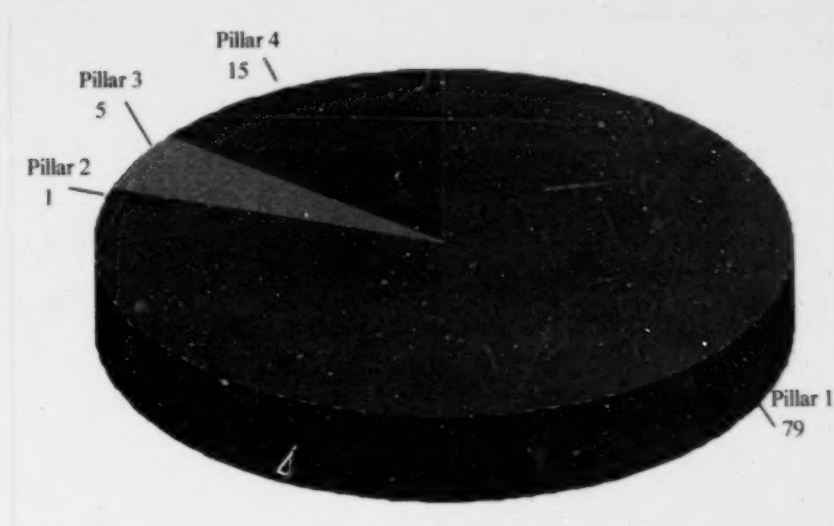
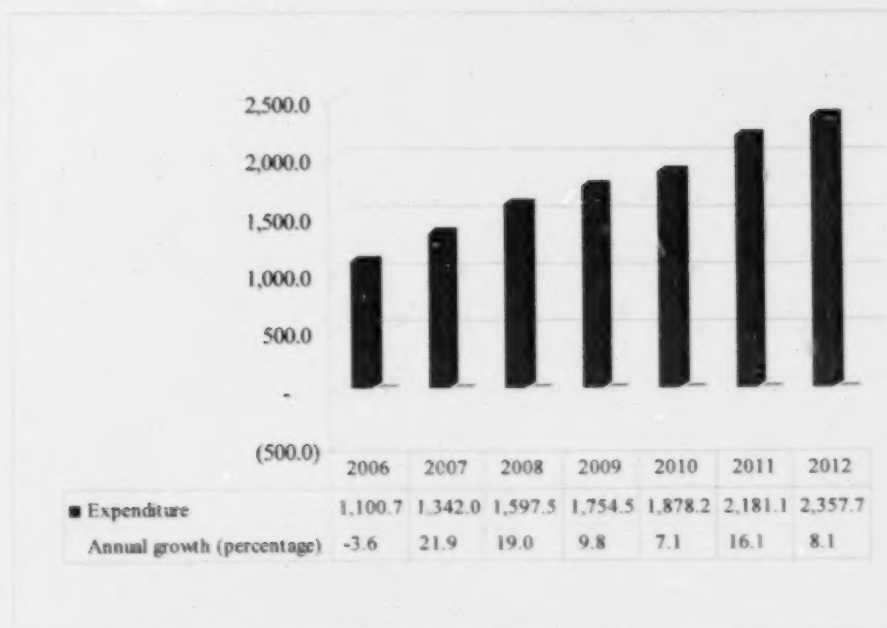


**Figure II**  
**Expenditures, 2006-2012**  
 (Millions of United States dollars)



48. Table IV.2 shows 2012 expenditure, broken down in terms of programme cost, support cost, management and administrative cost and the Junior Professional Officers programme.

**Table IV.2**  
**Expenditure, 2012**  
(Millions of United States dollars)

| Category                               | Amount         | Percentage   |
|----------------------------------------|----------------|--------------|
| Programme                              | 1 941.5        | 82.3         |
| Programme support                      | 286.9          | 12.2         |
| Management and administration          | 120.7          | 5.1          |
| Junior Professional Officers programme | 8.6            | 0.4          |
| <b>Total</b>                           | <b>2 357.7</b> | <b>100.0</b> |

49. The evolution of the expenditure for programme, programme support and management and administration (excluding the Junior Professional Officers programme) is presented graphically in figures III (in millions of United States dollars) and IV (in percentages) for the period from 2006 to 2012.

**Figure III**  
**Evolution of expenditure in United States dollars, 2006-2012**  
(Millions of United States dollars)

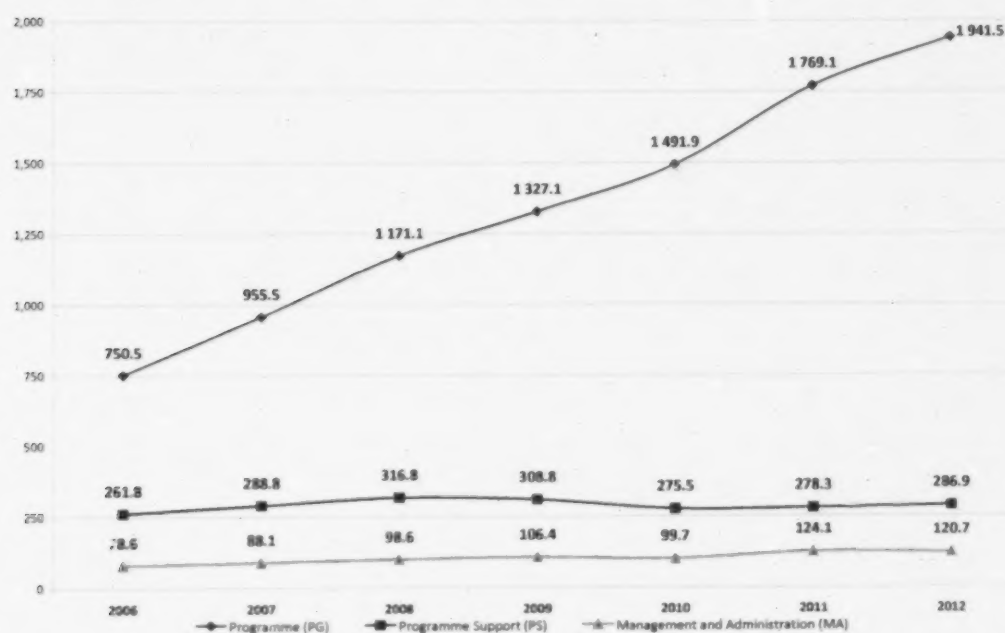
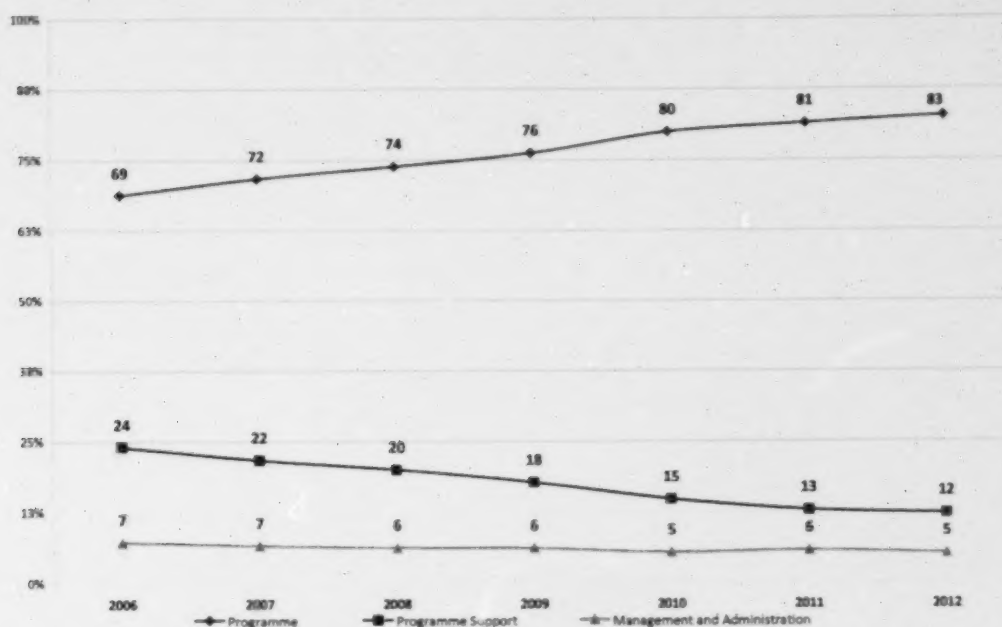


Figure IV  
Evolution of expenditure in percentages, 2006-2012



## F. Risk management

### Enterprise risk management

50. As an integral part of the organization's efforts to improve performance, transparency and accountability, UNHCR initiated a project in 2012 to develop and implement, as a priority measure, an enterprise risk management framework that will ensure optimal alignment between decision-making, resources and risks. The main objective of the project is to improve organizational performance and accountability by embedding a culture of effective risk management into all levels, as appropriate, across the organization.

51. At the end of 2012, the enterprise risk management concepts and system were completed, resulting in increased awareness in the organization. The enterprise risk management system is composed of a simple framework and methodology, complemented with tools and guidance materials. A corporate risk register is being compiled.

### Financial risk management

52. Financial risk management is carried out by the Office of the Controller, in compliance with UNHCR financial rules. It applies rigorous strategic planning and resource allocation, together with integrated liquidity and foreign exchange management. The Finance Investment and Strategic Committee is chaired by the Controller and provides guidance on financial risk management.

53. Risk management measures were successfully applied in 2012 to ensure that the impact of foreign exchange transactions was effectively mitigated and financial rewards were fully optimized. Cash holdings and the placement of surplus funds were at all times safeguarded. UNHCR liquidity management is aimed at preserving sufficient cash holdings and monetary assets to meet the organization's commitments, as and when they fall due. The majority of cash and cash-equivalent short-term placements are available within one day's notice to support operational requirements.

54. UNHCR maintains and manages a robust currency portfolio, derived from the receipt of voluntary contributions and outgoings and payments in various currencies that are significantly naturally hedged. Therefore, the organization resorts only to limited monthly foreign exchange hedging transactions, with no open contracts to report at year-end. Integrated supply, finance and treasury management systems provide the basis for managing global cash flows on a real-time basis, and also provide sound cash-flow forecasting capability.

55. UNHCR risk management policies limit the amount of credit exposure to any one institution and include the application of minimum credit quality guidelines. All surplus fund placements have been concluded with financial institutions that have been accorded the strongest ratings by the primary rating agencies.

## **G. Enhancing transparency and accountability**

### **Adoption of the International Public Sector Accounting Standards and realization of the benefits to be gained from their implementation**

56. The adoption of IPSAS is a United Nations system-wide initiative in the context of the reform of United Nations management practices and the improvement of transparency and accountability. UNHCR is committed to these developments and has succeeded in implementing the Standards. By adopting best practices in financial reporting for the international public sector, UNHCR is laying the foundation for greater transparency, more judicious stewardship of its resources and increased availability of information to support results-based management. Following the initial IPSAS implementation phase, UNHCR will focus on ensuring that it has the resources and governance structure required for compliance with the Standards in the long term and that the benefits to be gained from such compliance are realized to the maximum extent.

### **Internal controls and ongoing developments in that regard**

57. According to financial rule 10.1, the Controller is responsible to the High Commissioner for establishing internal controls to ensure: (a) the regularity of receipt, custody and disposal of all assets entrusted to her; and (b) the conformity of commitments and expenses with the directives of the Executive Committee or, as appropriate, with the purpose and conditions of the funds or accounts administered by UNHCR.

58. The system of internal controls that UNHCR has put in place is designed to reduce the risk of failure to achieve the organization's objectives and related policies. It is based on an ongoing process whereby the Office's governing body, the High Commissioner, senior management and other staff are called to exercise

controls to provide assurance with respect to the effectiveness and efficiency of operations and the safeguarding of assets, the reliability of financial reporting and compliance with applicable regulations and rules.

59. On an operational level, internal control and accountability processes are exercised continually at all levels within the organization. The general framework for this purpose is established through the following core documents:

(a) The global management accountability framework, which comprehensively maps accountabilities, responsibilities and authorities across the organization and relates them to the corresponding management policies, tools and guidance;

(b) The financial internal control framework and delegation-of-authority plans;

(c) The resource allocation framework;

(d) The budgetary internal control framework;

(e) Policies on partners for project implementation, project agreements and project monitoring, control and audit.

60. The review of the effectiveness of the system of internal controls is conducted by the bodies and mechanisms identified below.

#### **Office of Internal Oversight Services**

61. OIOS has performed internal audit services at UNHCR since 1997, in accordance with financial rule 12.1. The UNHCR Internal Audit Service of the Internal Audit Division of OIOS is based in Geneva. It also has an Audit Section in Nairobi to cover mainly UNHCR operations in Africa. The internal auditors undertake regular missions to review UNHCR operations in the field and organizational units, functions and systems at headquarters. The audit findings and recommendations are issued as internal audit reports addressed to the High Commissioner. OIOS then provides an annual summary report on its activities and assessments both to the Executive Committee and to the General Assembly as part of the OIOS annual report.

#### **Independent audit of projects implemented by partners**

62. As UNHCR is carrying out a high percentage of its activities through projects with implementing partners, the audit of projects implemented by partners has been mandatory since 1997. It is an important management tool for field offices and headquarters, as it provides evidence of the sound programme and financial accountability of implementing partners, which helps to enhance the credibility of UNHCR with donors and Member States. Audits of projects implemented by partners assist the organization in obtaining:

(a) Reasonable assurance that the final report submitted by the partner is free from material misstatement and in accordance with the terms of the project agreement;

(b) An evaluation of the partner's compliance with the project agreement;

(c) An assessment of the partner's internal controls and financial management practices.

63. In 2012, UNHCR enhanced project audits to improve the quality of audit reporting to support the trend analysis of audit results, in order to identify key risks and develop mitigation measures.

#### **Independent Audit and Oversight Committee**

64. With a view to further strengthening the oversight functions within UNHCR, the UNHCR Standing Committee approved the establishment of the Independent Audit and Oversight Committee at its 51st meeting, in June 2011, replacing the Oversight Committee, which had been established in 1997. The Independent Audit and Oversight Committee assists the High Commissioner and the Executive Committee in exercising their oversight responsibilities, in accordance with relevant best practice, industry standards and the financial and staff regulations and rules applicable to UNHCR.

#### **Internal Compliance and Accountability Committee**

65. In June 2012, UNHCR established the Internal Compliance and Accountability Committee, whose role it is to:

(a) Ensure effective organizational accountability by reviewing, prioritizing and monitoring outstanding critical recommendations identified by internal and external oversight bodies;

(b) Ensure that changes of policy and procedures recommended by oversight bodies are properly reviewed and, where appropriate, implemented;

(c) Recommend additional policies for enhanced accountability;

(d) Support the effective implementation of the individual accountability framework represented by the global management accountability framework.

#### **Inspector General's Office**

66. The Inspector General's Office is an independent internal body headed by the Inspector General and comprising two services (Inspection and Investigation) that act independently in conducting inspections of field offices and headquarters units, undertaking investigations into possible misconduct by UNHCR personnel, and conducting ad hoc inquiries regarding violent attacks on UNHCR personnel and operations where these involve fatalities, major injuries or large-scale damage to UNHCR assets. The Inspector General's Office provides independent oversight to support the effective, efficient and accountable management of UNHCR field operations and headquarters activities, while keeping the High Commissioner fully informed of challenges, problems and deficiencies in delivering the UNHCR mandate.

#### **Other tools and mechanisms**

67. It is worth noting the following efforts made by UNHCR on a continuous basis to strengthen internal controls, to maximize the effective and efficient use of its resources and to safeguard its assets:

(a) Focusing management attention on effective follow-up to recommendations made by internal and external oversight bodies, reporting regularly to the Independent Audit and Oversight Committee and the Executive Committee on the volume and nature of the outstanding recommendations;

(b) Documenting all actions to be taken to address the recommendations by means of action plans and reports on measures taken to address Board of Auditors recommendations;

(c) Reviewing and streamlining internal manuals, procedures and guidance available to staff;

(d) Holding periodic senior management committee meetings to review and discuss aspects relating to the reinforcement of risk and performance management practices across the organization.

#### **External audit**

68. The Board of Auditors performs the external audit in accordance with United Nations financial regulation 6.5. The High Commissioner submits the financial statements for the financial period to the Board of Auditors. The Board's review of the effectiveness of internal controls is limited to that necessary to enable it to express its audit opinion on the financial statements.

### **H. Going concern**

69. The consequences of any potential reductions, delays in receipt or defaults in payments of contributions, in particular within the context of the global economic and financial situation, have been evaluated by the management of UNHCR. Management considers that the organization has adequate resources to continue its operations as planned in the medium term. This assertion is based on the approval by the UNHCR Executive Committee of the revised budget requirements for 2013 at its meeting in October 2012, and the historical trend of the collection of pledges in recent years. Therefore, UNHCR has adopted the going-concern basis in the preparation of the financial statements.

## Chapter V

## Financial statements for the year ended 31 December 2012

## Statement I

## Financial position as at 31 December 2012

(Thousands of United States dollars)

|                                         | Note | 31 December 2012 | Opening balance as at<br>1 January 2012 (restated) |
|-----------------------------------------|------|------------------|----------------------------------------------------|
| <b>Assets</b>                           |      |                  |                                                    |
| <b>Current assets</b>                   |      |                  |                                                    |
| Cash and cash equivalents               | 3.1  | 431 186          | 534 908                                            |
| Contributions receivable                | 3.2  | 748 769          | 593 074                                            |
| Inventories                             | 3.3  | 122 064          | 92 485                                             |
| Other current assets                    | 3.4  | 62 910           | 59 316                                             |
| <b>Total current assets</b>             |      | <b>1 364 929</b> | <b>1 279 783</b>                                   |
| <b>Non-current assets</b>               |      |                  |                                                    |
| Contributions receivable                | 3.2  | 174 678          | 140 451                                            |
| Property, plant and equipment           | 3.5  | 99 722           | 52 295                                             |
| Intangible assets                       | 3.6  | 5 471            | —                                                  |
| <b>Total non-current assets</b>         |      | <b>279 871</b>   | <b>192 746</b>                                     |
| <b>Total assets</b>                     |      | <b>1 644 800</b> | <b>1 472 529</b>                                   |
| <b>Liabilities</b>                      |      |                  |                                                    |
| <b>Current liabilities</b>              |      |                  |                                                    |
| Accounts payable and accruals           | 3.7  | 74 435           | 69 315                                             |
| Employee benefits                       | 3.8  | 72 435           | 71 605                                             |
| Contributions pending agreement         | 3.9  | 358              | 2 438                                              |
| Other current liabilities               |      | 1 048            | 3 944                                              |
| <b>Total current liabilities</b>        |      | <b>148 276</b>   | <b>147 302</b>                                     |
| <b>Non-current liabilities</b>          |      |                  |                                                    |
| Employee benefits                       | 3.8  | 497 828          | 396 159                                            |
| Provisions                              | 3.10 | 740              | 600                                                |
| <b>Total non-current liabilities</b>    |      | <b>498 568</b>   | <b>396 759</b>                                     |
| <b>Total liabilities</b>                |      | <b>646 844</b>   | <b>544 061</b>                                     |
| <b>Net assets</b>                       |      | <b>997 956</b>   | <b>928 468</b>                                     |
| <b>Fund balances and reserves</b>       |      |                  |                                                    |
| Accumulated fund balances and reserves  | 3.11 | 1 461 401        | 1 296 285                                          |
| Working Capital and Guarantee Fund      | 3.12 | 50 000           | 50 000                                             |
| Medical Insurance Plan                  | 3.13 | 35 481           | 39 489                                             |
| Staff Benefits Fund                     | 3.14 | (548 926)        | (457 306)                                          |
| <b>Total fund balances and reserves</b> |      | <b>997 956</b>   | <b>928 468</b>                                     |

Note: The accompanying notes form an integral part of these financial statements.

Statement II  
**Financial performance for the year ended 31 December 2012**  
 (Thousands of United States dollars)

|                                                 | Note    | 31 December 2012 |
|-------------------------------------------------|---------|------------------|
| <b>Revenue</b>                                  |         |                  |
| Voluntary contributions                         | 5.1     | 2 411 436        |
| United Nations regular budget                   | 5.2     | 11 856           |
| Interest revenue                                |         | 1 753            |
| Other revenue                                   | 5.3     | 11 820           |
| <b>Total revenue</b>                            |         | <b>2 436 865</b> |
| <b>Expenses</b>                                 |         |                  |
| Implementing partner expenses                   | 6.1     | 897 208          |
| Salaries and employee benefits                  | 6.2     | 687 698          |
| Contractual services                            | 6.3     | 173 246          |
| Supplies and consumables for beneficiaries      | 6.4     | 187 590          |
| Operating expenses                              | 6.5     | 123 363          |
| Individual and family payments to beneficiaries | 6.6     | 102 754          |
| Equipment and office supplies                   | 6.7     | 43 170           |
| Travel expense                                  |         | 41 347           |
| Fuels and lubricants                            |         | 28 496           |
| Consultants                                     |         | 21 851           |
| Depreciation and amortization                   | 3.5/3.6 | 12 956           |
| Finance costs                                   | 6.8     | (20 626)         |
| Other expenses                                  | 6.9     | 6 877            |
| <b>Total expenses</b>                           |         | <b>2 305 930</b> |
| <b>Surplus for the year</b>                     |         | <b>130 935</b>   |

Note: The accompanying notes form an integral part of these financial statements.

## Statement III

## Changes in net assets for the year ended 31 December 2012

(Thousands of United States dollars)

|                                                                             | Note           | Accumulated fund balances and reserves | Working Capital and Insurance Fund | Staff Benefits Fund | Medical Insurance Plan | Total            |
|-----------------------------------------------------------------------------|----------------|----------------------------------------|------------------------------------|---------------------|------------------------|------------------|
| <b>Net assets at 31 December 2011</b>                                       |                | <b>232 043</b>                         | <b>50 000</b>                      | <b>(482 918)</b>    | <b>39 489</b>          | <b>(161 386)</b> |
| <b>Change in accounting policy and other adjustments to net assets</b>      |                |                                        |                                    |                     |                        |                  |
| Initial recognition of property, plant and equipment                        |                | 47 048                                 | -                                  | -                   | -                      | 47 048           |
| Initial recognition of inventory                                            |                | 92 484                                 | -                                  | -                   | -                      | 92 484           |
| Recognition of contributions receivable                                     |                | 720 598                                | -                                  | -                   | -                      | 720 598          |
| Derecognition of unliquidated obligations                                   |                | 205 794                                | -                                  | -                   | -                      | 205 794          |
| Derecognition of after-service health insurance liability                   |                | -                                      | -                                  | 25 612              | -                      | 25 612           |
| Other adjustments                                                           |                | (1 682)                                | -                                  | -                   | -                      | (1 682)          |
| <b>Total recognized changes in net assets since last published accounts</b> | <b>12</b>      | <b>1 064 242</b>                       | <b>-</b>                           | <b>25 612</b>       | <b>-</b>               | <b>1 089 854</b> |
| <b>Adjusted opening balance 1 January 2012</b>                              |                | <b>1 296 285</b>                       | <b>50 000</b>                      | <b>(457 306)</b>    | <b>39 489</b>          | <b>928 468</b>   |
| <b>Movements in fund balances and reserves in 2012</b>                      |                |                                        |                                    |                     |                        |                  |
| Surplus for the year                                                        | 3.11/3.12/3.13 | 143 083                                | 22 033                             | (33 473)            | (708)                  | 130 935          |
| Loss on after-service health insurance actuarial valuation                  | 3.8            | -                                      | -                                  | (71 053)            | -                      | (71 053)         |
| Funding of long-term employee liabilities                                   |                | -                                      | -                                  | 9 606               | -                      | 9 606            |
| Transfers                                                                   | 3.11/3.12/3.13 | 22 033                                 | (22 033)                           | 3 300               | (3 300)                | -                |
| <b>Total movements during the year</b>                                      |                | <b>165 116</b>                         | <b>-</b>                           | <b>(91 620)</b>     | <b>(4 008)</b>         | <b>69 488</b>    |
| <b>Total net assets at 31 December 2012</b>                                 |                | <b>1 461 401</b>                       | <b>50 000</b>                      | <b>(548 926)</b>    | <b>35 481</b>          | <b>997 956</b>   |

Note: The accompanying notes form an integral part of these financial statements.

**Statement IV**  
**Cash flow for the year ended 31 December 2012**

(Thousands of United States dollars)

| Note 31 December 2012                                                                           |         |                  |
|-------------------------------------------------------------------------------------------------|---------|------------------|
| <b>Cash flows from operating activities:</b>                                                    |         |                  |
| <b>Surplus for the period</b>                                                                   |         | <b>130 935</b>   |
| Depreciation and amortization                                                                   | 3.5/3.6 | 12 956           |
| (Increase) Decrease in contributions receivable                                                 | 3.2     | (189 922)        |
| (Increase) Decrease in inventories                                                              | 3.3     | (29 579)         |
| (Increase) Decrease in other assets                                                             | 3.4     | (3 594)          |
| Increase (Decrease) in accounts payable and accruals                                            | 3.7     | 5 120            |
| Increase (Decrease) in employee benefits liabilities, net of actuarial loss on ASHI liabilities |         | 41 052           |
| Increase (Decrease) in contributions pending agreement                                          | 3.9     | (2 080)          |
| Increase (Decrease) in provisions                                                               | 3.10    | 140              |
| Increase (Decrease) in other liabilities                                                        |         | (2 896)          |
| (Gain) Loss on disposal of property, plant and equipment                                        |         | 3 827            |
| Revenue from sale of assets                                                                     |         | (1 558)          |
| Revenue from in-kind contributions of property, plant and equipment                             |         | (786)            |
| <b>Net cash flows from operating activities</b>                                                 |         | <b>(36 385)</b>  |
| <b>Cash flows from investing activities:</b>                                                    |         |                  |
| Purchase of property, plant and equipment                                                       | 3.5     | (62 867)         |
| Purchase of intangible assets                                                                   | 3.6     | (6 028)          |
| Proceeds from sale of assets                                                                    |         | 1 558            |
| <b>Net cash flows from investing activities</b>                                                 |         | <b>(67 337)</b>  |
| <b>Cash flows from financing activities</b>                                                     |         | <b>—</b>         |
| <b>Net cash flows from financing activities</b>                                                 |         | <b>—</b>         |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                     |         | <b>(103 722)</b> |
| <b>Cash and cash equivalents at beginning of the year</b>                                       |         | <b>534 908</b>   |
| <b>Cash and cash equivalents at end of the year</b>                                             |         | <b>431 186</b>   |

*Note:* The accompanying notes form an integral part of these financial statements.

## Statement V

## Comparison of budget and actual amounts for the year ended 31 December 2012

(Thousands of United States dollars)

|                                                                                       | Global needs assessment budget |                       | Actual on comparable basis | Variances: Final budget and actual amounts |
|---------------------------------------------------------------------------------------|--------------------------------|-----------------------|----------------------------|--------------------------------------------|
|                                                                                       | Note                           | Original <sup>a</sup> | Final <sup>b</sup>         |                                            |
| <b>Field operations</b>                                                               |                                |                       |                            |                                            |
| Africa                                                                                |                                | 1 636 336             | 1 965 507                  | 960 976 1 004 531                          |
| Middle East and North Africa                                                          |                                | 565 519               | 866 152                    | 521 476 344 676                            |
| Asia and the Pacific                                                                  |                                | 502 010               | 525 274                    | 309 394 215 880                            |
| Europe                                                                                |                                | 181 528               | 233 877                    | 134 987 98 890                             |
| Americas                                                                              |                                | 95 527                | 101 137                    | 63 250 37 887                              |
| <b>Total field operations</b>                                                         |                                | <b>2 980 920</b>      | <b>3 691 947</b>           | <b>1 990 083 1 701 864</b>                 |
| <b>Global programmes</b>                                                              |                                | 151 652               | 184 426                    | 170 947 13 479                             |
| <b>Headquarters</b>                                                                   |                                | 177 764               | 188 361                    | 188 073 288                                |
| <b>Operational reserve and new or additional activities — mandate-related reserve</b> |                                | 268 849               | 178 873                    | — 178 873                                  |
| <b>Junior Professional Officers programme</b>                                         |                                | 12 000                | 12 000                     | 8 607 3 393                                |
| <b>Total</b>                                                                          | <b>7</b>                       | <b>3 591 185</b>      | <b>4 255 607</b>           | <b>2 357 710 1 897 897</b>                 |

Note: The accompanying notes form an integral part of these financial statements.

<sup>a</sup> The initial budget was approved by the Executive Committee of the Programme of the United Nations High Commissioner for Refugees at its 62nd session (3-7 October 2011) as contained in document A/66/12/Add.1.

<sup>b</sup> At its 63rd session, the Executive Committee approved the revised budget of \$4,052.6 million (see A/67/12/Add.1), and the final budget figure represents the sum of the approved revised budget and the supplementary budget of \$203 million established by the High Commissioner in accordance with Rule 7.5 of the financial rules for voluntary funds administered by the United Nations High Commissioner for Refugees (see A/AC.96/503/Rev.10 and EC/64/SC/CRP.7).

## Notes to the financial statements

### Note 1

#### Office of the United Nations High Commissioner for Refugees, its objectives and activities

1. The mandate of the United Nations High Commissioner for Refugees is found in the statute of the Office of the United Nations High Commissioner for Refugees (UNHCR) (General Assembly resolution 428 (V), annex). According to the statute, the High Commissioner, acting under the authority of the General Assembly, shall assume the function of providing international protection, under the auspices of the United Nations, to refugees who fall within the scope of the statute and of seeking permanent solutions for the problem of refugees.
2. The General Assembly has also called upon the High Commissioner to provide assistance to returnees, as well as to monitor their safety and well-being on return (Assembly resolution 40/118). In addition, on the basis of specific requests from the Secretary-General or the competent principal organs of the United Nations, and with the consent of the State concerned, the High Commissioner provides humanitarian assistance and protection to internally displaced persons (Assembly resolution 48/116). As regards the High Commissioner's assistance activities, the basic provisions of the statute were expanded by the Assembly in its resolution 832 (IX). The Office of the United Nations High Commissioner for Refugees was established by the Assembly in its resolution 319A (IV) of 3 December 1949. Its statute was approved by the Assembly in resolution 428 (V) of 14 December 1950.
3. The overall objectives of the Office are to provide international protection to refugees and to seek durable solutions to refugee problems. UNHCR seeks to safeguard the fundamental principles of asylum and non-refoulement and to ensure that the basic rights of refugees are respected and that they are treated in a dignified and humane manner. The organization has also developed, at the request of the General Assembly and the Governments concerned, substantial material assistance programmes to meet refugee needs. Subsequent resolutions of the General Assembly, the Economic and Social Council and the Executive Committee of the Programme of the United Nations High Commissioner for Refugees have called on UNHCR, in the context of its mandate, to assist other groups of persons regarded as falling within the concern of the High Commissioner. In complex humanitarian emergencies, the Office also contributes to the provision of humanitarian assistance.
4. The High Commissioner reports annually to the General Assembly through the Economic and Social Council. The Executive Committee of the High Commissioner's Programme was established pursuant to General Assembly resolution 1166 (XII) of 26 November 1957, to advise the High Commissioner in the exercise of his or her functions and to approve the use of voluntary funds made available to the High Commissioner. The annual cycle of meetings of the Executive Committee consists of one plenary session and a number of intersessional meetings of its subsidiary body, the Standing Committee of the Whole. In 2012, the Executive Committee consisted of 87 members. Each year, the report on the session of the Executive Committee is submitted to the General Assembly as an addendum to the annual report of the High Commissioner.
5. The Office has its headquarters in Geneva, with a Global Service Centre in Budapest and an Information and Communications Technology Service Centre in

Amman. It has a presence in 124 countries, where its core work is managed from a series of regional offices, branch offices, sub-offices and field offices, in the following five regions: Africa, the Americas, Asia and the Pacific, Europe, and the Middle East and North Africa. Global programmes are managed by the Department of Operations and functional divisions.

## **Note 2**

### **Accounting policies**

#### *Basis for preparation*

6. The financial statements of the Office of the United Nations High Commissioner for Refugees (UNHCR) have been prepared on the accrual basis of accounting, in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board. The financial statements have been prepared on a going concern basis. This assertion is based on the approval by the Executive Committee of UNHCR of the revised budget requirements for 2013 at its meeting in October 2012, and the historical trend of collection of pledges over the past number of years. The accounting policies have been applied consistently throughout the period.

7. The present document contains the first set of financial statements to be prepared in accordance with IPSAS. The Office previously prepared its financial statements on a modified cash basis under the United Nations system accounting standards. The adoption of IPSAS has required changes to the accounting policies previously followed by UNHCR. The adoption of new accounting policies has resulted in changes to the assets and liabilities recognized in the statement of financial position. Accordingly, the last audited statement of assets, liabilities, reserves and fund balances as at 31 December 2011 has been restated and the resulting changes are reported in the statement of changes in net assets (statement III) and note 12. The revised statement of financial position as at 31 December 2011 is described in the present financial statements as the opening balance as at 1 January 2012 (restated). The net effect of the changes brought about by the adoption of IPSAS in the statement of financial position amounted to an increase in total net assets of \$1,084.4 million as at 1 January 2012.

8. As permitted on the initial adoption of IPSAS, transitional provisions have been applied in the following areas:

(a) Comparative information has not been provided in the statements of financial performance and of cash flow (International Public Sector Accounting Standard 1);

(b) Property, plant and equipment acquired before 1 January 2011, with the exception of permanent buildings, have not been recognized in the present financial statements (Standard 17);

(c) Intangible assets are recognized prospectively from 1 January 2012 in accordance with the transition provision of Standard 31.

9. The following International Public Sector Accounting Standards were adopted prior to the required effective dates: Standard 28, "Financial instruments: presentation"; Standard 29, "Financial instruments: recognition and measurement";

Standard 30, "Financial instruments: disclosures"; and Standard 32, "Service concession arrangements: grantor".

10. In accordance with the Financial Regulations of the United Nations, the functional and reporting currency of UNHCR is the United States dollar. All values are rounded to the nearest thousand.

11. Foreign currency transactions are translated into dollars using the United Nations operational rate of exchange, which approximates the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the year-end closing rate of the operational rate of exchange.

12. Both realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.

13. The statement of cash flow is prepared using the indirect method.

14. The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Consideration of materiality is central in the development of accounting policies and preparation of financial statements.

#### *Revenue*

15. In accordance with IPSAS requirements, and reflecting the nature of the work of the Office, revenue from the United Nations regular budget, voluntary contributions as well as pledges of voluntary contributions confirmed in writing are recognized as non-exchange transactions as per International Public Sector Accounting Standard 23, "Revenue from non-exchange transactions (taxes and transfers)". UNHCR considers that while there are restrictions on the use of contributions, these restrictions do not meet the definition of a condition as described under Standard 23.

16. In-kind contributions of goods and services that directly support approved operations and activities and can be reliably measured, are recognized and valued at fair value. These contributions include goods which are distributed to beneficiaries, the use of premises, utilities, transport and personnel. In-kind contributions of goods are treated as both revenue and assets upon receipt of the goods.

17. In-kind contributions of services are treated as both revenue and expense upon recognition.

18. The revenue arising from the rendering of services, the sale of goods and the use by others of UNHCR assets is recognized as exchange revenue in accordance with International Public Sector Accounting Standard 9.

#### *Expenses*

19. In accordance with the accrual basis of accounting, expense recognition occurs at the time of the delivery of goods or services by the supplier or service provider. Expenses are recorded in the accounting records and recognized in the financial statements of the period to which they relate.

## **Assets**

### *Cash and cash equivalents*

20. Cash and cash equivalents are held at nominal value and comprise cash on hand, cash at banks and short-term deposits.

### *Financial instruments*

21. The financial instruments of UNHCR comprise cash and term deposits, accounts receivable and accounts payable, together with the limited usage of foreign exchange derivative contracts.

22. Financial instruments are recognized when UNHCR becomes a party to the contractual provisions of the instrument until such time as when the rights to receive cash flows from those assets have expired or have been transferred and UNHCR has transferred substantially all the risks and rewards of ownership.

23. Financial instruments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that UNHCR has the intention and ability to hold to maturity. Held-to-maturity short-term financial instruments are stated at amortized cost.

### *Contributions receivable*

24. Current contributions receivable are stated at nominal value less allowance for doubtful accounts. Long-term contributions receivable are stated at amortized cost using the effective interest method.

### *Inventories*

25. Inventories constitute mostly stock items which are distributed free to beneficiaries. Inventories include such non-food items as tents, bedding materials, household items, medical hygienic supplies and apparel, and construction and related equipment materials. Some food items are also included in inventories.

26. Inventories, except donated inventories, are valued at the lower of cost or current replacement cost. Inventory items received as in-kind contributions are measured at fair value as at the date of transfer to UNHCR.

27. The cost of inventories includes purchase cost (or fair value if donated in kind) and all other costs incurred in bringing the inventories to their present location, which also includes the costs of moving inventory into UNHCR custody in the first recipient country. These costs include procurement, transport and insurance.

28. The cost of inventories located in field offices is determined by using specific identification of their individual actual cost. The cost of inventories which are located in central warehouses is determined on the weighted average basis.

29. Inventories are expensed when distributed directly by UNHCR to beneficiaries or when they are transferred to implementing partners or provided to other entities for relief assistance purposes.

30. Inventory items are reviewed periodically for obsolescence and an allowance is made based on past experience.

*Property, plant and equipment*

31. Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Depreciation is provided for property, plant and equipment over their estimated useful life using the straight-line method, except for land, which is not subject to depreciation.

32. Individual items of property, plant and equipment are capitalized if their original acquisition price is equal to or greater than the threshold limit set at \$10,000.

33. The estimated useful life for the various classes of property, plant and equipment is as follows:

| <i>Class</i>                                                                                                        | <i>Estimated useful life (in years)</i>                                                                                                                   |
|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Permanent buildings — headquarters                                                                                  | 40                                                                                                                                                        |
| Permanent buildings — other locations                                                                               | 20                                                                                                                                                        |
| Mobile buildings and semi-permanent structures                                                                      | 5                                                                                                                                                         |
| Leasehold — major improvements and alterations                                                                      | The lesser of the remaining lease term, plus the renewal option where relevant, and the asset's useful life                                               |
| Donated right-of-use — major improvements and alterations                                                           | The lesser of the expected period for which the Office of the United Nations High Commissioner for Refugees will use the asset or the asset's useful life |
| Motor vehicle equipment — heavy                                                                                     | 10                                                                                                                                                        |
| Motor vehicle equipment — light                                                                                     | 5                                                                                                                                                         |
| Equipment, including generators, telecommunications, security and safety, storage and office furniture and fittings | 5                                                                                                                                                         |
| Computers and workshop equipment                                                                                    | 3                                                                                                                                                         |

34. With the exception of permanent buildings, UNHCR has invoked the transition provision of IPSAS for property, plant and equipment purchased, leased or donated before 1 January 2011, and consequently those items are not recognized in the present financial statements. A transition plan is in place which will, in accordance with International Public Sector Accounting Standard 17, recognize all property, plant and equipment in the financial statements within five years of the first year of the adoption of IPSAS.

35. Impairment reviews are undertaken for all assets at least annually.

*Intangible assets*

36. Intangible assets are stated at historical cost less accumulated amortization and any impairment losses.

37. Intangible assets are capitalized if their original acquisition price is equal to or greater than the threshold of \$30,000, except for internally developed software, where the threshold is \$150,000.

38. Amortization is provided over the estimated useful life using the straight-line method. The estimated useful lives for the intangible asset classes are as follows:

| <i>Class</i>                                                                       | <i>Estimated useful life (in years)</i>                            |
|------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Software acquired externally                                                       | 6 years                                                            |
| Software internally developed                                                      | 6 years                                                            |
| Licences and rights, copyrights, intellectual property and other intangible assets | Shorter of the licence or rights period and useful life of 3 years |

#### *Liabilities*

##### *Accounts payable and accruals*

39. Accounts payable are financial liabilities in respect of goods or services that have been acquired and received by UNHCR and for which the invoices have been received from the suppliers.

40. Accruals are liabilities for goods and services that have been received or provided to UNHCR during the year and which have not been invoiced by suppliers as of the reporting date.

##### *Employee benefits liabilities*

41. The Office recognizes the following categories of employee benefits:

- (a) Short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service;
- (b) Post-employment benefits;
- (c) Other long-term employee benefits;
- (d) Termination benefits.

##### *Short-term employee benefits*

42. Short-term employee benefits comprise mainly salaries, wages and payroll-related allowances, first-time employee benefits, education grants and related benefits, and other benefits such as paid annual leave. Short-term employee benefits are measured at their nominal values.

##### *Post-employment benefits*

43. Post-employment benefits are defined benefit plans consisting of the United Nations Joint Staff Pension Fund and after-service health insurance.

44. The liability recognized for these benefits is the present value of the defined benefit obligations at the reporting date. The defined benefit obligations are

calculated by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from changes in actuarial assumptions are recognized directly in equity.

#### *United Nations Joint Staff Pension Fund*

45. UNHCR is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3(b) of the regulations of the Fund, membership in the Fund is open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

46. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNHCR and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of UNHCR of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the Office has treated this plan as if it were a defined contribution plan in line with the requirements of International Public Sector Accounting Standard 25. UNHCR contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

47. Other long-term employment benefits include end-of-service allowances and repatriation grants, including travel.

#### *Provisions and contingent liabilities*

48. Provisions are made where UNHCR has a present legal or constructive obligation as a result of past events and it is probable that the Office will be required to settle the obligation.

49. Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of UNHCR.

#### *Segment reporting*

50. In accordance with International Public Sector Accounting Standard 18, the financial statements are also presented by segment. A segment is a distinguishable activity or group of activities for which financial information is reported separately for the purpose of evaluating the entity's past performance in achieving its objectives and in making decisions about the future allocation of resources.

51. UNHCR classifies all its activities into three segments: (a) programmes; (b) projects; and (c) special funds and accounts. UNHCR reports on the transactions of each segment during the year, and on the balances held at the end of the year.

52. Programmes include the global refugee programme (pillar 1) and the global stateless programme (pillar 2), as well as the activities funded by the United Nations Regular Budget Fund and the Junior Professional Officers Fund. The financial requirements for programmed activities relating to pillars 1 and 2 are approved by the Executive Committee (under the biennial programme budget, which is revised at the end of the first year of the biennium). This also includes operational reserves from which the High Commissioner may make allocations to other parts of the annual budget, including supplementary budgets. The global refugee programme relates to the refugee mandate of UNHCR and covers protection, assistance and durable solutions in countries of asylum (including all activities to facilitate the voluntary repatriation of refugees), together with capacity-building, advocacy and resource mobilization activities. The global stateless programme relates to the mandate of the Office for statelessness, covering all programmes addressing stateless persons, including populations with undetermined nationality. The Junior Professional Officers Fund covers activities relating to the recruitment, training and development of young professionals sponsored by various Governments.

53. Projects include the global reintegration projects (pillar 3) and the global internally displaced persons projects (pillar 4). The financial requirements for programmed activities relating to pillars 3 and 4 are approved by the Executive Committee (under the biennial programme budget, which is revised at the end of the first year of the biennium). Global reintegration projects relate to an area where UNHCR has joint responsibilities with other United Nations organizations (as part of the "Delivering as one" initiative), covering longer-term activities to reintegrate returning refugees in their country of origin or to locally integrate refugees in their country of asylum, with links to the broader framework of United Nations country programmes. Global internally displaced persons projects cover operations for internally displaced persons, where UNHCR is operating within the inter-agency cluster approach.

54. The special funds and accounts comprise the Working Capital and Guarantee Fund; the Staff Benefits Fund; the Medical Insurance Plan; and the special account for the Common Humanitarian Pipeline.

#### *Budget comparison*

55. While the accrual accounting method has been adopted as of 1 January 2012, the budget for UNHCR continues to be formulated on a modified cash basis. In the statement of financial performance (statement II), expenses are classified and based on the nature of expenses, whereas in the statement of comparison of budget and actual amounts (statement V) expenditures are classified by the operations and the programmes to which they have to be charged.

56. The Executive Committee of the High Commissioner's Programme approves the biennial programme budget, which includes budgeted amounts for the direct costs of operations and management and administration. The budget is based on a global needs assessment and provides a comprehensive statement of resources required to address the needs of persons of concern. The High Commissioner may, in the case of new needs that cannot be met fully from the operational reserve, approve supplementary budgets under the biennial programme budget with such adjustments being reported to each subsequent meeting of the Standing Committee. The High Commissioner is authorized to implement the budgets to the extent that

funds become available under the voluntary funds administered by the United Nations High Commissioner for Refugees.

57. The statement of comparison of budget and actual amounts (statement V) compares the final budget to actual amounts on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget and the financial statements differ, note 7 provides reconciliation between the actual amounts presented in statement V to the actual amounts presented in the statement of financial performance (statement II).

### Note 3

#### Assets and liabilities

#### 3.1 Cash and cash equivalents

Table 3.1.1

(Thousands of United States dollars)

|                                        | 31 December 2012 | Opening balance<br>as at 1 January 2012 (restated) |
|----------------------------------------|------------------|----------------------------------------------------|
| Cash and cash equivalents              |                  |                                                    |
| Headquarters                           | 39 207           | 24 702                                             |
| Field offices                          | 69 979           | 71 242                                             |
| Short-term deposits                    | 322 000          | 438 964                                            |
| <b>Total cash and cash equivalents</b> | <b>431 186</b>   | <b>534 908</b>                                     |

58. Cash required for immediate disbursement is maintained in cash and bank accounts. Balances in short-term deposit accounts are available at short notice.

59. Cash and cash equivalents are held for operational activities and non-operational activities as described in table 3.1.2.

Table 3.1.2

(Thousands of United States dollars)

|                                        | 31 December 2012 | Opening balance as at<br>1 January 2012<br>(restated) |
|----------------------------------------|------------------|-------------------------------------------------------|
| Operational                            | 319 728          | 429 583                                               |
| Non-operational                        |                  |                                                       |
| Medical Insurance Plan                 | 35 481           | 39 489                                                |
| Working Capital and Guarantee Fund     | 49 986           | 49 902                                                |
| Junior Professional Officers Fund      | 13 075           | 15 934                                                |
| Staff Benefits Fund                    | 12 916           | —                                                     |
| <b>Total cash and cash equivalents</b> | <b>431 186</b>   | <b>534 908</b>                                        |

### 3.2 Contributions receivable

Table 3.2.1

(Thousands of United States dollars)

|                                                          | 31 December 2012 | Opening balance<br>1 January 2012 (restated) |
|----------------------------------------------------------|------------------|----------------------------------------------|
| <b>Current contributions receivable</b>                  |                  |                                              |
| Governments                                              | 568 500          | 469 302                                      |
| Other donors                                             | 125 686          | 77 999                                       |
| United Nations organizations                             | 27 869           | 57 261                                       |
| Private donors                                           | 32 122           | 11 233                                       |
| <b>Current contributions receivable before allowance</b> | <b>754 177</b>   | <b>615 795</b>                               |
| Allowance for doubtful accounts                          | (5 408)          | (22 721)                                     |
| <b>Total current contributions receivable</b>            | <b>748 769</b>   | <b>593 074</b>                               |
| <b>Non-current contributions receivable</b>              |                  |                                              |
| Governments                                              | 160 890          | 118 230                                      |
| Other donors                                             | 13 647           | 17 327                                       |
| United Nations organizations                             | 141              | 4 894                                        |
| <b>Total non-current contributions receivable</b>        | <b>174 678</b>   | <b>140 451</b>                               |
| <b>Net contributions receivable</b>                      | <b>923 447</b>   | <b>733 525</b>                               |

60. All contributions receivable have been recorded as revenue in the year in which the donor's contribution was confirmed in writing.

61. Table 3.2.2 provides the composition of contributions receivable by due date.

Table 3.2.2

(Thousands of United States dollars)

| Year due                              | 31 December 2012 | Percentage   | Opening balance<br>1 January 2012<br>(restated) | Percentage   |
|---------------------------------------|------------------|--------------|-------------------------------------------------|--------------|
| 2011 and prior years                  | 16 873           | 1.8          | 51 777                                          | 7.1          |
| 2012                                  | 136 702          | 14.8         | 541 297                                         | 73.8         |
| 2013                                  | 595 194          | 64.5         | 80 818                                          | 11.0         |
| 2014                                  | 111 010          | 12.0         | 58 539                                          | 7.9          |
| 2015                                  | 27 511           | 3.0          | 1 094                                           | 0.2          |
| 2016                                  | 36 157           | 3.9          | —                                               | —            |
| <b>Total contributions receivable</b> | <b>923 447</b>   | <b>100.0</b> | <b>733 525</b>                                  | <b>100.0</b> |

62. Contributions receivable relate to donor contributions for programmes projects and special accounts. Donor contributions may include earmarking that requires

UNHCR to use the contribution for a specific region or subregion for a designated country or for a thematic activity.

63. Table 3.2.3 provides an analysis of contributions receivable by type of earmarking.

Table 3.2.3

(Thousands of United States dollars)

|                                       | 31 December 2012 | Opening balance<br>1 January 2012 (restated) |
|---------------------------------------|------------------|----------------------------------------------|
| Unrestricted                          | 454 763          | 303 820                                      |
| Pending earmarking                    | 231 824          | —                                            |
| Country level                         | 210 371          | 340 081                                      |
| Regional/subregional                  | 14 072           | 8 574                                        |
| Thematic                              | 12 417           | 40                                           |
| <b>Total contributions receivable</b> | <b>923 447</b>   | <b>733 525</b>                               |

64. Contributions pending earmarking of \$231.8 million arose primarily at the pledging conference held in December 2012 from donors who are yet to decide on earmarking their funding.

65. The movement of the allowance for doubtful accounts during 2012 is illustrated in table 3.2.4.

Table 3.2.4

(Thousands of United States dollars)

|                                    | Opening balance<br>1 January 2012<br>(restated) | Write-offs | Increase | (Decrease) | 31 December 2012 |
|------------------------------------|-------------------------------------------------|------------|----------|------------|------------------|
| Allowance for doubtful<br>accounts | 22 721                                          | (17 692)   | 575      | (196)      | 5 408            |

66. Contributions receivable are shown net of allowances for doubtful accounts. The allowance is based on an estimate made for contributions receivable for which no reasonable expectation of recovery exists.

### 3.3 Inventories

67. The following tables show the movements of inventory items during the year. Table 3.3.1 shows the total value of inventories as presented in the statement of financial position (statement I). Table 3.3.2 shows a reconciliation of inventories which reflects the opening balance additions during the year reduced by the value of inventory items distributed and other adjustments less the allowance for obsolete inventory.

Table 3.3.1

(Thousands of United States dollars)

| <i>Inventory type</i>                        | <i>31 December 2012</i> | <i>Opening balance<br/>1 January 2012 (restated)</i> |
|----------------------------------------------|-------------------------|------------------------------------------------------|
| Tents                                        | 50 803                  | 36 733                                               |
| Bedding materials                            | 42 437                  | 39 966                                               |
| Household items                              | 26 984                  | 20 932                                               |
| Medical hygienic supplies and apparel        | 12 699                  | 9 072                                                |
| Food and other supplies                      | 6 349                   | 3 605                                                |
| Construction and related equipment materials | 3 396                   | 2 359                                                |
| Material consumables                         | 213                     | 197                                                  |
| <b>Subtotal</b>                              | <b>142 881</b>          | <b>112 864</b>                                       |
| Less: allowance for obsolescence             | 20 817                  | 20 379                                               |
| <b>Total inventory</b>                       | <b>122 064</b>          | <b>92 485</b>                                        |

Table 3.3.2

(Thousands of United States dollars)

| <i>Inventory reconciliation</i>                 | <i>2012</i>    |
|-------------------------------------------------|----------------|
| Opening inventory as at 1 January 2012          | 92 485         |
| Cost of goods acquired <sup>a</sup>             | 211 221        |
| Cost of goods distributed                       | (175 689)      |
| Other adjustments                               | (5 515)        |
| Increase in allowance for obsolescence          | (438)          |
| <b>Closing inventory as at 31 December 2012</b> | <b>122 064</b> |

<sup>a</sup> Including in-kind contributions

68. UNHCR holds inventory items to be distributed to its persons of concern, in 183 warehouses around the world and seven global central warehouses located in Dubai, United Arab Emirates; Copenhagen; Isaka, United Republic of Tanzania; Nairobi; Accra; Douala, Cameroon; and Amman. During 2012, inventory items distributed totalled \$175.7 million and are recorded as an expense in the statement of financial performance (statement II).

69. Inventory quantities derived from the inventory tracking system of UNHCR are validated by physical stock counts and adjusted as necessary. Other adjustments also include inventory which has been written off during the year for which no allowance had been made.

70. An allowance for obsolete inventory is made based on past experience. A full allowance is made for all inventory items which are aged in excess of their standard shelf life and an appropriate allowance is made for other inventory items which are considered slow-moving.

71. The movement of the allowance for obsolete inventory is illustrated in table 3.3.3.

Table 3.3.3

(Thousands of United States dollars)

|                                  | Opening balance<br>1 January 2012<br>(restated) | Write-offs | Increase | (Decrease) | 31 December 2012 |
|----------------------------------|-------------------------------------------------|------------|----------|------------|------------------|
| Allowance for obsolete inventory | 20 379                                          | —          | 438      | —          | 20 817           |

72. At year-end, UNHCR held inventory items with a total value of \$128.1 million (after the allowance for obsolescence), which is less than one year (or 9 months) in terms of the amount of inventory distributed in 2012.

### 3.4 Other current assets

Table 3.4.1

(Thousands of United States dollars)

|                                          | 31 December 2012 | Opening balance as at<br>1 January 2012 (restated) |
|------------------------------------------|------------------|----------------------------------------------------|
| Prepayments                              | 46 622           | 40 694                                             |
| Deposits with suppliers                  | 2 851            | 898                                                |
| Value-added tax receivables              | 8 067            | 7 181                                              |
| Implementing partner receivables         | 2 777            | 8 033                                              |
| Staff advances                           | 6 728            | 5 114                                              |
| Other receivables                        | 3 826            | 4 739                                              |
| <b>Subtotal</b>                          | <b>70 871</b>    | <b>66 659</b>                                      |
| Less: allowance for other current assets | 7 961            | 7 343                                              |
| <b>Total other current assets</b>        | <b>62 910</b>    | <b>59 316</b>                                      |

73. Prepayments are payments made in advance of the period to which the expense relates and include implementing partner agreements, prepaid rent, education grants and travel.

74. Deposits with suppliers include rental deposits and deposits necessary to secure supplies and services.

75. Value-added tax (VAT) receivables relate to amounts which are due to be reimbursed to UNHCR by Governments.

76. Funding is provided to implementing partners on the basis of agreements entered into with UNHCR. Receivables from implementing partners are amounts confirmed by the partner as remaining unspent at the end of the agreement. As at 31 December 2012, the net amount receivable from implementing partners amounted to \$1.1 million (\$6.4 million in 2011), representing a gross amount receivable of \$2.8 million (\$8 million in 2011) less an allowance for doubtful accounts of \$1.7 million (\$1.6 million in 2011).

77. Staff advances primarily consist of advances towards rental subsidies, travel, salary and other staff entitlements.

78. Other receivables include amounts due from other United Nations organizations and miscellaneous receivables.

79. An allowance is made for those doubtful accounts included in other current assets for which no reasonable expectation of recovery exists. The movement of the allowance for these doubtful accounts is illustrated in table 3.4.2.

Table 3.4.2

(Thousands of United States dollars)

|                                    | <i>Opening balance<br/>1 January 2012<br/>(restated)</i> | <i>Write-offs</i> | <i>Increase (Decrease)</i> | <i>31 December 2012</i> |
|------------------------------------|----------------------------------------------------------|-------------------|----------------------------|-------------------------|
| Allowance for other current assets | 7 343                                                    | (196)             | 814                        | 7 961                   |

### 3.5 Property, plant and equipment

80. With the exception of permanent buildings, the transition provision under International Public Sector Accounting Standard 17 has been invoked for property, plant and equipment acquired before 1 January 2011, including capital improvements and alterations of properties used by UNHCR. Consequently, such items are not recognized in the present financial statements. A transition plan is in place which will, in accordance with Standard 17, bring all property, plant and equipment into account within five years as from the first year of adoption of IPSAS.

81. Main asset classes comprise: land and buildings, major alteration and improvements to properties, motor vehicles, computers and telecommunication equipment and generators.

**Property, plant and equipment**

(Thousands of United States dollars)

|                                              | Land and<br>buildings | Major<br>alteration and<br>improvements | Motor<br>vehicles | Generators     | Computer and<br>telecommunication<br>equipment | Other<br>equipment | Total           |
|----------------------------------------------|-----------------------|-----------------------------------------|-------------------|----------------|------------------------------------------------|--------------------|-----------------|
| <b>Cost/Valuation</b>                        |                       |                                         |                   |                |                                                |                    |                 |
| Opening balance at 1 January 2012 (restated) | 14 278                | 1 335                                   | 32 871            | 3 399          | 1 519                                          | 4 583              | 57 985          |
| Additions — purchased                        | 4 082                 | 2 167                                   | 46 550            | 3 661          | 5 546                                          | 861                | 62 867          |
| Additions — contributions in-kind            | 489                   | —                                       | 207               | 90             | —                                              | —                  | 786             |
| Disposals                                    | (811)                 | —                                       | (3 222)           | (151)          | (74)                                           | (108)              | (4 366)         |
| <b>Closing balance at 31 December 2012</b>   | <b>18 038</b>         | <b>3 502</b>                            | <b>76 406</b>     | <b>6 999</b>   | <b>6 991</b>                                   | <b>5 336</b>       | <b>117 272</b>  |
| <b>Accumulated depreciation</b>              |                       |                                         |                   |                |                                                |                    |                 |
| Opening balance at 1 January 2012 (restated) | (2 900)               | (121)                                   | (2 007)           | (253)          | (126)                                          | (283)              | (5 690)         |
| Disposals                                    | 95                    | —                                       | 400               | 15             | 13                                             | 16                 | 539             |
| Depreciation charge for the year             | (1 182)               | (816)                                   | (8 011)           | (951)          | (463)                                          | (976)              | (12 399)        |
| <b>Closing balance at 31 December 2012</b>   | <b>(3 987)</b>        | <b>(937)</b>                            | <b>(9 618)</b>    | <b>(1 189)</b> | <b>(576)</b>                                   | <b>(1 243)</b>     | <b>(17 550)</b> |
| <b>Net book value</b>                        |                       |                                         |                   |                |                                                |                    |                 |
| Opening balance at 1 January 2012 (restated) | 11 378                | 1 214                                   | 30 864            | 3 146          | 1 393                                          | 4 300              | 52 295          |
| <b>Closing balance at 31 December 2012</b>   | <b>14 051</b>         | <b>2 565</b>                            | <b>66 788</b>     | <b>5 810</b>   | <b>6 415</b>                                   | <b>4 093</b>       | <b>99 722</b>   |

### 3.6 Intangible assets

82. The movements in intangible assets during the year are as follows:

(Thousands of United States dollars)

| <i>Class of intangibles</i>                     | <i>Software<br/>acquired<br/>externally</i> | <i>Software<br/>internally<br/>developed</i> | <i>Licences and<br/>rights, copyrights<br/>and other</i> | <i>Intangible<br/>assets under<br/>development</i> | <i>Total</i> |
|-------------------------------------------------|---------------------------------------------|----------------------------------------------|----------------------------------------------------------|----------------------------------------------------|--------------|
| <b>Cost</b>                                     |                                             |                                              |                                                          |                                                    |              |
| Opening balance as at 1 January 2012 (restated) | —                                           | —                                            | —                                                        | —                                                  | —            |
| Additions                                       | —                                           | —                                            | 1 822                                                    | 4 206                                              | 6 028        |
| <b>Closing balance as at 31 December 2012</b>   | <b>—</b>                                    | <b>—</b>                                     | <b>1 822</b>                                             | <b>4 206</b>                                       | <b>6 028</b> |
| <b>Accumulated amortization</b>                 |                                             |                                              |                                                          |                                                    |              |
| Opening balance as at 1 January 2012 (restated) | —                                           | —                                            | —                                                        | —                                                  | —            |
| Amortization charge for the year                | —                                           | —                                            | 557                                                      | —                                                  | 557          |
| <b>Closing balance as at 31 December 2012</b>   | <b>—</b>                                    | <b>—</b>                                     | <b>557</b>                                               | <b>—</b>                                           | <b>557</b>   |
| <b>Net book value</b>                           |                                             |                                              |                                                          |                                                    |              |
| Opening balance as at 1 January 2012 (restated) | —                                           | —                                            | —                                                        | —                                                  | —            |
| <b>Closing balance as at 31 December 2012</b>   | <b>—</b>                                    | <b>—</b>                                     | <b>1 265</b>                                             | <b>4 206</b>                                       | <b>5 471</b> |

83. The capitalized value of internally developed software excludes those costs related to research and maintenance.

84. Additions under "Licences" represent perpetual rights acquired for the use of desktop software after the expiration of the contract in January 2015. The cost will be amortized over three years, ending in January 2015.

85. "Intangible assets under development" represent two software projects: Focus 2 and proGres.

### 3.7 Accounts payable and accruals

(Thousands of United States dollars)

|                                     | <i>31 December 2012</i> | <i>Opening balance as at<br/>1 January 2012<br/>(restated)</i> |
|-------------------------------------|-------------------------|----------------------------------------------------------------|
| <b>Accounts payable</b>             |                         |                                                                |
| Commercial suppliers                | 24 480                  | 21 255                                                         |
| Implementing partners               | 7 084                   | 9 062                                                          |
| United Nations system organizations | 3 315                   | 699                                                            |
| Other payables                      | 2 632                   | 2 396                                                          |
| <b>Total accounts payable</b>       | <b>37 511</b>           | <b>33 412</b>                                                  |
| <b>Accruals</b>                     |                         |                                                                |
| Commercial suppliers                | 24 215                  | 17 493                                                         |

|                                            | 31 December 2012 | Opening balance as at<br>1 January 2012<br>(restated) |
|--------------------------------------------|------------------|-------------------------------------------------------|
| Implementing partners                      | 6 346            | 11 713                                                |
| United Nations system organizations        | 4 865            | 6 232                                                 |
| Other payables                             | 1 498            | 465                                                   |
| <b>Total accruals</b>                      | <b>36 924</b>    | <b>35 903</b>                                         |
| <b>Total accounts payable and accruals</b> | <b>74 435</b>    | <b>69 315</b>                                         |

86. Accounts payable to commercial suppliers relate to amounts due for goods and services for which invoices have been received.

87. The amounts due to implementing partners represent payments being processed against agreements with those partners.

88. Other payables include amounts due to employees, volunteers, contractors and beneficiaries.

89. Accruals are liabilities for the cost of goods and services that have been received or provided to UNHCR during the year and which have not been invoiced by suppliers as of the reporting date.

### 3.8 Employee benefits liabilities

Table 3.8.1

(Thousands of United States dollars)

|                                            | 31 December 2012 | Opening balance as at<br>1 January 2012<br>(restated) |
|--------------------------------------------|------------------|-------------------------------------------------------|
| <b>Employee benefits liabilities</b>       |                  |                                                       |
| Salaries and other staff benefits          | 8 420            | 10 458                                                |
| Annual leave                               | 55 336           | 51 753                                                |
| After-service health insurance             | 421 588          | 325 162                                               |
| Repatriation benefits                      | 83 796           | 80 391                                                |
| Other separation benefits                  | 1 123            | —                                                     |
| <b>Total employee benefits liabilities</b> | <b>570 263</b>   | <b>467 764</b>                                        |
| <b>Composition</b>                         |                  |                                                       |
| Current                                    | 72 435           | 71 605                                                |
| Non-current                                | 497 828          | 396 159                                               |
| <b>Total employee benefits liabilities</b> | <b>570 263</b>   | <b>467 764</b>                                        |

90. Salaries and other staff benefits include short-term employee benefits such as salaries and wages, assignment grants, home leave, education grants and other benefits.

91. Annual leave liabilities are calculated for the unused annual leave balance at the end of 2012. Separating staff are entitled to be paid for unused annual leave they may have accrued up to a maximum of 60 days.

92. After-service health insurance is available in the form of continued membership in the United Nations Staff Mutual Insurance Society, an insurance scheme managed by the United Nations Office at Geneva, or through the Medical Insurance Plan for retired locally recruited staff members who served at designated duty stations away from headquarters and their eligible dependents.

*Actuarial valuation of post-employment and other long-term liabilities*

93. Liabilities related to after-service health insurance and repatriation benefits are calculated by an independent actuary. Actuarial assumptions are summarized as follows:

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*Assumptions used in valuation of after-service health insurance obligations*

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|                                        |                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Discount rate                          | 3.3% — Weighted average of discount rates (2.2%-4.35%) of three major currencies representing after-service health insurance liabilities, i.e., United States dollar, euro and Swiss franc. Each year's projected after-service health insurance cash flow is discounted at a spot rate for high quality corporate bonds payable in each major currency appropriate for that maturity. |
| Expected rate of salary increase       | 2.5%                                                                                                                                                                                                                                                                                                                                                                                   |
| Expected rate of medical cost increase | 2.95% — Weighted average of health-care cost trend rates (2.0%-4.0%) estimated for reimbursement of claims in United States dollar, euro and Swiss franc.                                                                                                                                                                                                                              |

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*Assumptions used in valuation of repatriation benefit obligations*

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|                                  |                                                                                                                                                                                                                                                                       |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Discount rate                    | 3.3% — Each year's projected cash flow is discounted at a spot rate for high quality corporate bonds payable in United States dollars appropriate for that maturity. The discount rate is the single equivalent rate that produces the same discounted present value. |
| Expected rate of salary increase | 2.5%                                                                                                                                                                                                                                                                  |

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*After-service health insurance liability*

Table 3.8.2

(Thousands of United States dollars)

|                                             | <i>Present value of future benefits</i> | <i>Accrued liability</i> |
|---------------------------------------------|-----------------------------------------|--------------------------|
| Gross liability                             | 870 724                                 | 610 296                  |
| Offset from retiree contributions           | 264 019                                 | 188 709                  |
| <b>Net liability as at 31 December 2012</b> | <b>606 705</b>                          | <b>421 587</b>           |

94. The present value of future benefits is the discounted value of all benefits, less retiree contributions, to be paid in the future to all current retirees and active staff expected to retire. The accrued liability represents that portion of the present value of benefits that has accrued from the staff member's date of entry on duty until the valuation date. An active staff member's benefit is fully accrued when that staff member has reached the date of full eligibility for after-service benefits. Thus, for retirees and active staff members who are eligible to retire with benefits, the present value of future benefits and the accrued liability are equal. Liabilities are calculated using the projected unit credit method, whereby each participant's benefits under the plan are expensed as they accrue, taking into consideration the plan's benefit allocation formula.

95. Table 3.8.3 presents a reconciliation of opening and closing balances of the after-service health insurance liability.

Table 3.8.3

(Thousands of United States dollars)

| <i>After-service health insurance</i>                                           | <i>2012</i>    | <i>2011</i>    |
|---------------------------------------------------------------------------------|----------------|----------------|
| Defined benefit obligation at 1 January                                         | 325 162        | 286 550        |
| Service expense cost for year                                                   | 13 195         | 10 774         |
| Interest expense cost for year                                                  | 16 447         | 15 757         |
| Benefits paid (net of participants' contribution)                               | (4 270)        | (5 286)        |
| Actuarial (gain)/loss                                                           | 71 053         | 42 979         |
| <b>Subtotal</b>                                                                 | <b>421 587</b> | <b>350 774</b> |
| Opening balance adjustment for International Public Sector Accounting Standards | —              | (25 612)       |
| <b>Defined benefit obligation at 31 December</b>                                | <b>421 587</b> | <b>325 162</b> |

96. From 2012, in accordance with the related IPSAS accounting policy, the actuarial gains and losses are recognized as a direct charge to reserves while service and interest costs are recognized as an expense net of benefits paid and participants' contributions. The total amount recognized in the statement of financial performance (statement II) as expense during 2012 is \$25.4 million. The amount recognized in the statement of changes in net assets (statement III) for actuarial loss

is \$71 million. The closing balance as at 31 December 2011 was subject to an IPSAS opening balance adjustment as at 1 January 2012.

97. The after-service health insurance liability for active and retired staff and their dependents who are or were funded by the United Nations regular budget is not included in the present financial statements as it constitutes a liability of the United Nations. Currently the after-service health insurance expense for this group of staff is paid directly by the United Nations.

98. UNHCR has started funding after-service health insurance liabilities by charging 3 per cent of the net base salary with effect from 1 January 2012. The amount reserved as at 31 December 2012 is \$10.9 million.

99. The contribution of UNHCR in 2013 for after-service health insurance is estimated at \$4.1 million.

#### *Sensitivity analysis*

100. As per the actuarial report, the effect of an increase or decrease of one percentage point in the assumed medical cost trend rate on (a) the aggregate of the current service cost and interest cost component of net periodic post-employment medical cost and (b) the accumulated post-employment benefit obligation is shown in table 3.8.4.

Table 3.8.4

(Thousands of United States dollars)

|                                                                                                                                | 2012     | 2011     |
|--------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Effect on the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs |          |          |
| One percentage point increase                                                                                                  | 7 883    | 6 732    |
| One percentage point decrease                                                                                                  | (4 976)  | (5 109)  |
| Effect on year-end accumulated post-employment benefit obligation                                                              |          |          |
| One percentage point increase                                                                                                  | 89 781   | 90 361   |
| One percentage point decrease                                                                                                  | (70 287) | (68 194) |

#### *Repatriation benefits*

101. In line with the Staff Rules and Staff Regulations of the United Nations, some staff members are entitled to repatriation grants and related relocation costs upon their separation from the organization, based on the number of years of service. The organization's accrued liability for repatriation grant and travel as at 31 December 2012, as determined by the actuary, is \$83.8 million as shown in table 3.8.5.

Table 3.8.5

(Thousands of United States dollars)

|                                             | <i>Present value of future benefits</i> | <i>Accrued liability</i> |
|---------------------------------------------|-----------------------------------------|--------------------------|
| Repatriation grant                          | 70 788                                  | 52 565                   |
| Travel and shipment                         | 31 231                                  | 31 231                   |
| <b>Net liability as at 31 December 2012</b> | <b>102 019</b>                          | <b>83 796</b>            |

102. Table 3.8.6 presents a reconciliation of opening and closing balances of the repatriation liability.

Table 3.8.6

(Thousands of United States dollars)

| <i>Repatriation grant and travel</i>   | <i>2012</i>   | <i>2011</i>   |
|----------------------------------------|---------------|---------------|
| Net obligation at 1 January            | 80 391        | 69 751        |
| Service expense cost for the year      | 2 699         | 2 368         |
| Interest expense cost for the year     | 3 947         | 3 719         |
| Benefits paid                          | (3 611)       | (5 482)       |
| Actuarial (gain)/loss                  | 370           | 10 035        |
| <b>Total obligation at 31 December</b> | <b>83 796</b> | <b>80 391</b> |

103. The aggregate of the current year service cost, interest cost, benefits paid and actuarial gains or losses are recognized as expense in the statement of financial performance (statement II). For 2012, the amount recognized as expense is \$3.4 million.

104. Payments in 2013 for repatriation benefits are estimated to be \$5.5 million.

#### *United Nations Joint Staff Pension Fund*

105. The Pension Fund's regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

106. The financial obligation of UNHCR to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the regulations of the Pension Fund. Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount

proportionate to the total contributions which each paid during the three years preceding the valuation date.

107. The latest actuarial valuation was performed as at 31 December 2011. The valuation revealed an actuarial deficit of 1.87 per cent (0.38 per cent in the 2009 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as of 31 December 2011 was 25.57 per cent of pensionable remuneration, compared to the actual contribution rate of 23.7 per cent. The actuarial deficit was primarily attributable to the lower than expected investment experience in recent years.

108. At 31 December 2011, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 130 per cent (140 per cent in the 2009 valuation). The funded ratio was 86 per cent (91 per cent in the 2009 valuation) when the current system of pension adjustments was taken into account.

109. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2011, for deficiency payments under article 26 of the regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of the present report, the General Assembly has not invoked the provision of article 26. The pensionable remuneration will be reviewed at the time of the next actuarial valuation as of 31 December 2013.

110. In July 2012, the Pension Board noted, in the report on its fifty-ninth session to the General Assembly (A/67/9) that an increase in the normal age of retirement for new participants of the Fund to 65 is expected to significantly reduce the deficit and would potentially cover half of the current deficit of 1.87 per cent.

111. During 2012, UNHCR contributions paid to the Pension Fund amounted to \$76.2 million (\$72 million in 2011). Expected contributions due in 2013 are \$83.3 million.

112. The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments and these can be viewed on its website at [www.unjspf.org](http://www.unjspf.org).

### 3.9 Contributions pending agreement

113. Contributions pending agreement relate to funds which have been received by UNHCR and for which a corresponding liability is recognized until such time as the agreements with the respective donors have been finalized. Upon finalization of the agreements the amounts involved are then recognized as revenue.

(Thousands of United States dollars)

|                                 | 31 December 2012 | Opening balance as at<br>1 January 2012<br>(restated) |
|---------------------------------|------------------|-------------------------------------------------------|
| Contributions pending agreement | 358              | 2 438                                                 |

### 3.10 Provisions

(Thousands of United States dollars)

| Type of provision                                                               | Opening balance as at<br>1 January 2012<br>(restated) | Utilization | Increase/<br>(Decrease) | Closing balance as at<br>31 December 2012 |
|---------------------------------------------------------------------------------|-------------------------------------------------------|-------------|-------------------------|-------------------------------------------|
| Provision for restoration for<br>leasehold premises and donated<br>right-of-use | 600                                                   | —           | 140                     | 740                                       |
| <b>Total provisions</b>                                                         | <b>600</b>                                            | <b>—</b>    | <b>140</b>              | <b>740</b>                                |

114. The provision for the restoration for leasehold premises and donated right-of-use premises relates mostly to medium term leases and similarly to donated right-of-use premises where there is a contractual obligation to restore the premises to the original condition. The leases and rights of use on these premises are usually renewed and, as a consequence, UNHCR treats the provision for restoration as a non-current liability.

### 3.11 Accumulated fund balances and reserves

(Thousands of United States dollars)

|                                                           | Opening balance as<br>at 1 January 2012 | Surplus/(Deficit) | Transfer in    | Transfer out     | Closing balance as at<br>31 December 2012 |
|-----------------------------------------------------------|-----------------------------------------|-------------------|----------------|------------------|-------------------------------------------|
| <b>Annual Programme Fund</b>                              |                                         |                   |                |                  |                                           |
| Annual Programme Fund net of<br>reserves                  | 1 051 446                               | 136 523           | 295 877        | (202 511)        | 1 281 335                                 |
| Operational reserve                                       | 84 130                                  | —                 | 152 963        | (227 093)        | 10 000                                    |
| New or additional activities —<br>mandate-related reserve | 4 278                                   | (34)              | 15 756         | —                | 20 000                                    |
| <b>Total Annual Programme<br/>Fund</b>                    | <b>1 139 854</b>                        | <b>136 489</b>    | <b>464 596</b> | <b>(429 604)</b> | <b>1 311 335</b>                          |
| United Nations Regular Budget Fund                        | 46 604                                  | (35 123)          | 23             | (23)             | 11 481                                    |
| Junior Professional Officers Fund                         | 12 884                                  | 1 302             | 22             | (1 052)          | 13 156                                    |
| Reintegration Projects Fund                               | 23 566                                  | 71                | 5 267          | (1 823)          | 27 081                                    |
| Internally Displaced Persons<br>Projects Fund             | 73 377                                  | 33 402            | 21 778         | (34 677)         | 93 880                                    |
| Common Humanitarian Pipeline                              | —                                       | 6 942             | —              | (2 474)          | 4 468                                     |
| <b>Total accumulated fund<br/>balances and reserves</b>   | <b>1 296 285</b>                        | <b>143 083</b>    | <b>491 686</b> | <b>(469 653)</b> | <b>1 461 401</b>                          |

115. Fund balances represent the unexpended portion of contributions which have been recorded as revenue that are intended to be utilized in future operational requirements of the organization. Transfers under the Annual Programme Fund, the operational reserve and the new or additional activities — mandate-related reserve relate to the utilization of the operational reserve and the new or additional

activities — mandate-related reserve for programmes and projects and other transfers relate to the transfer of funds between pillars.

116. Transactions for pillar 1: global refugee programme and pillar 2: global stateless programme are recorded in:

- (a) the Annual Programme Fund;
- (b) the Regular Budget Fund;
- (c) the Junior Professional Officers Fund;

Transactions for pillar 3, under the Reintegration Projects Fund and pillar 4, under the Internally Displaced Persons Projects Fund, are recorded in those respective funds.

117. The operational reserve is utilized to provide assistance to refugees, returnees and displaced persons for which there is no provision in the programmes and projects approved by the Executive Committee and other related activities. The reserve is maintained at not less than \$10 million by replenishments from the Working Capital and Guarantee Fund.

118. The new or additional activities — mandate-related reserve is utilized to provide UNHCR with the budgetary capacity to accommodate unbudgeted activities which are consistent with the activities and strategies in the approved annual programme budget and with the mandate of the Office. This reserve is constituted at \$50 million for each financial period of the biennial programme budget, or at a different level if so decided by the Executive Committee. For 2012, the Executive Committee set the level at \$20 million.

119. A special account for the Common Humanitarian Pipeline was established in 2012 for the management and coordination of non-food items logistics in Darfur, the Sudan. UNHCR took over the leadership of this activity on 1 April 2012 from the World Food Programme. The main objective is to ensure that appropriate stock levels for non-food items are maintained and distributed twice a year (in preparation for the rainy season and the winter season). This activity is not included in the global needs assessment budget.

### 3.12 Working Capital and Guarantee Fund

120. The Working Capital and Guarantee Fund has an established ceiling of \$50 million approved by the Executive Committee. The Fund is maintained by income from interest on invested funds, savings from prior years' programmes, voluntary contributions, and other miscellaneous revenue. The Fund is utilized to replenish the operational reserve, and to meet essential payments and guarantee obligations pending receipt of contributions pledged.

(Thousands of United States dollars)

|                                       | Opening<br>balance as at<br>1 January 2012 | Surplus | Transfer in | Transfer out | Closing<br>balance as at<br>31 December 2012 |
|---------------------------------------|--------------------------------------------|---------|-------------|--------------|----------------------------------------------|
| Working Capital and<br>Guarantee Fund | 50 000                                     | 22 033  | 139 398     | (161 431)    | 50 000                                       |

### 3.13 Medical Insurance Plan

(Thousands of United States dollars)

|                        | <i>Opening balance<br/>1 January 2012</i> | <i>Surplus</i> | <i>Transfer in</i> | <i>Transfer out</i> | <i>Closing balance<br/>31 December 2012</i> |
|------------------------|-------------------------------------------|----------------|--------------------|---------------------|---------------------------------------------|
| Medical Insurance Plan | 39 489                                    | (708)          | —                  | (3 300)             | 35 481                                      |

121. The Medical Insurance Plan was established by the General Assembly at its forty-first session in accordance with United Nations staff regulation 6.2. The plan is maintained by premiums paid by field staff and proportional contributions from UNHCR, as well as by interest income. Expenses include claims processed during the year and associated administrative expenses. Coverage under the plan is limited to locally recruited General Service staff members and National Professional Officers in the field.

122. During 2012, \$3.3 million, equivalent to 3 per cent of the net base salary of staff members participating in the plan, was transferred from the Medical Insurance Plan to the Staff Benefits Fund towards funding the after-service health insurance liabilities in respect of participants in the plan.

### 3.14 Staff Benefits Fund

(Thousands of United States dollars)

|                                | <i>31 December 2012</i> |                |                         | <i>Opening balance as at<br/>1 January 2012 (restated)</i> |                |                         |
|--------------------------------|-------------------------|----------------|-------------------------|------------------------------------------------------------|----------------|-------------------------|
|                                | <i>Liabilities</i>      | <i>Funding</i> | <i>Net fund balance</i> | <i>Liabilities</i>                                         | <i>Funding</i> | <i>Net fund balance</i> |
| After-service health insurance |                         |                |                         |                                                            |                |                         |
| United Nations Staff           |                         |                |                         |                                                            |                |                         |
| Mutual Insurance Society       | (302 628)               | 7 606          | (295 022)               | (281 730)                                                  | —              | (281 730)               |
| Medical Insurance Plan         | (118 959)               | 3 310          | (115 649)               | (43 432)                                                   | —              | (43 432)                |
| <b>Subtotal</b>                | <b>(421 587)</b>        | <b>10 916</b>  | <b>(410 671)</b>        | <b>(325 162)</b>                                           | <b>—</b>       | <b>(325 162)</b>        |
| Repatriation benefits          | (83 796)                | 2 000          | (81 796)                | (80 391)                                                   | —              | (80 391)                |
| Annual leave                   | (55 356)                | —              | (55 336)                | (51 753)                                                   | —              | (51 753)                |
| Other separation benefits      | (1 123)                 | —              | (1 123)                 | —                                                          | —              | —                       |
| <b>Total</b>                   | <b>(561 842)</b>        | <b>12 916</b>  | <b>(548 926)</b>        | <b>(457 306)</b>                                           | <b>—</b>       | <b>(457 306)</b>        |

123. The Staff Benefits Fund was established to record transactions relating to end-of-service and post-retirement benefits.

124. In accordance with the decision of the Standing Committee in June 2011, UNHCR started funding after-service health insurance liabilities by charging 3 per cent of the net base salary with effect from 1 January 2012. The amount reserved during 2012 is \$10.9 million.

125. In addition, as per the decision of the Standing Committee, \$2.0 million has been reserved for funding repatriation benefits in 2012.

126. All of the above funds and reserves are established by the Executive Committee of the High Commissioner's Programme.

#### **Note 4**

#### **Risk analysis**

##### *Credit risk*

127. The risk management policies of the Office limit the amount of credit exposure to any counterparty and include strict adherence to minimum credit quality guidelines. Therefore, the risk of loss of principal or loss of financial reward have been substantially mitigated through applying stringent risk management evaluations. Cash and cash equivalent holdings are placed with major financial institutions worldwide, taking into account geographical distribution and also specific threshold limits by counterparty. All surplus funds placements have been concluded with financial institutions that have been accorded the strongest credit ratings by the primary rating agencies, hence safeguarding highest credit quality.

128. Contributions receivable comprise primarily voluntary contributions due from Member States. Historically there have been no material amounts which have remained uncollected. Note 3.2 provides details of the status of the outstanding contributions and their aging profile.

##### *Liquidity risk*

129. Total cash and cash equivalent holdings for UNHCR amounted to \$431.2 million as at 31 December 2012, compared to \$534.9 million at 31 December 2011, resulting in a reduction of 19.4 per cent of total cash holdings.

130. The total cash and cash equivalents of the Office comprise unencumbered operational cash holdings amounting to \$319.7 million and encumbered non-operational cash holdings amounting to \$111.5 million (see note 3.1).

131. Unencumbered operational cash holdings at year-end as a multiplier of average monthly cash outflow provide 1.7 months of coverage. UNHCR manages its cash requirements with the target of maintaining its average unencumbered operational cash holdings at a level equivalent to no more than two months' average cash outflows. The implementation of programme and emergency activities of UNHCR are planned against pledged contributions and special appeals, together with cash flow forecasting and monitoring of the drawdown and receipt of donor contributions. Rigorous liquidity management procedures and monitoring are in place to ensure that sufficient liquid cash holdings are available at any point in time to meet contractual liabilities as and when due.

132. Placements of any surplus operational cash holdings were made with due consideration for the organization's global liquidity requirements with an average duration of 30 days.

##### *Interest rate risk*

133. The organization earns interest income derived from cash and cash equivalent surplus balances that it maintains throughout the year. In 2012, interest income earned amounted to \$1.8 million, compared to \$1.5 million in 2011, representing an increase of \$0.3 million. Despite the low interest rate environment worldwide and

short duration of placement, UNHCR achieved interest income results that were substantially above the set benchmark of returns on three-month United States Treasury bills, thereby providing effective interest rate management together with safeguarding the funds. The implementation of the programme and budget of UNHCR is not dependent on or affected by interest earnings.

#### *Foreign exchange risk*

134. The organization is affected by the foreign exchange risk derived from contributions received in 10 major currencies and cash outflows of payments in 95 currencies. UNHCR maintains and manages this dynamic currency portfolio by establishing actual and forecasted net cash flow positions that are highly correlated between receiving and paying currencies and therefore the organization only resorts to limited monthly hedging interventions, with no open contracts to report at year-end.

135. UNHCR risk management measures were applied to ensure that foreign exchange impacts were minimized and the value of cash holdings was safeguarded.

136. As at 31 December 2012, 75 per cent of the reported balance of cash and cash equivalents was held in short-term placements denominated in United States dollars, 9 per cent in centralized headquarters accounts in major currency denominations, and 16 per cent in field accounts for the sole purpose of immediate disbursements for ongoing field operations.

### **Note 5**

#### **Revenue**

#### **5.1 Voluntary contributions**

Table 5.1.1

(Thousands of United States dollars)

|                                      | 2012             |
|--------------------------------------|------------------|
| <b>Monetary contributions</b>        |                  |
| Governments                          | 1 932 446        |
| Private                              | 145 002          |
| United Nations system organizations  | 104 832          |
| Other donors                         | 202 960          |
| Refund to donors                     | (1 084)          |
| <b>Total monetary contributions</b>  | <b>2 384 156</b> |
| <b>In-kind contributions</b>         |                  |
| Governments                          | 11 242           |
| United Nations system organizations  | 9 962            |
| Private donors                       | 6 076            |
| <b>Total in-kind contributions</b>   | <b>27 280</b>    |
| <b>Total voluntary contributions</b> | <b>2 411 436</b> |

137. Monetary contribution revenue is adjusted by changes in the allowance for doubtful accounts, and is reduced by refunds made to donors.

138. In-kind contributions represent donations of goods and services received that directly support approved operations. In-kind contributions include inventory items which can be distributed to beneficiaries and the use of premises, utilities, transport and personnel. The amount of in-kind contributions in 2012 comprised \$17.2 million for goods and \$10.1 million for services.

139. The total monetary contributions of \$2,384.2 million recorded in 2012 are further analysed by year due (table 5.1.2) and by type of earmarking (table 5.1.3).

**Table 5.1.2**

(Thousands of United States dollars)

| <i>By year due</i>                  | <i>2012</i>      |
|-------------------------------------|------------------|
| <b>2012</b>                         | <b>1 724 958</b> |
| Future years                        |                  |
| 2013                                | 539 504          |
| 2014                                | 56 092           |
| 2015                                | 27 445           |
| 2016                                | 36 157           |
| <b>Subtotal</b>                     | <b>659 198</b>   |
| <b>Total monetary contributions</b> | <b>2 384 156</b> |

**Table 5.1.3**

(Thousands of United States dollars)

| <i>By type of earmarking</i>        | <i>2012</i>      |
|-------------------------------------|------------------|
| Unrestricted                        | 510 640          |
| Pending earmarking                  | 228 638          |
| Country level                       | 961 385          |
| Regional/subregional level          | 651 257          |
| Thematic                            | 32 236           |
| <b>Total monetary contributions</b> | <b>2 384 156</b> |

## **5.2 United Nations regular budget**

(Thousands of United States dollars)

|                                      | <i>2012</i>   |
|--------------------------------------|---------------|
| <b>United Nations regular budget</b> | <b>11 856</b> |

140. The regular budget is allotted by the United Nations to UNHCR and covers staff and other management costs as determined under the statute of the Office (article 20). On 27 December 2011, UNHCR received allotment advice with respect

to the year 2012 amounting to \$47 million. In accordance with IPSAS revenue recognition, this amount was recorded as an opening balance adjustment as at 1 January 2012. UNHCR received further allotment advice for 2012 on 28 December 2012 amounting to \$11.9 million, which was recognized as revenue in 2012.

### 5.3 Other revenue

(Thousands of United States dollars)

|                                                          | 2012          |
|----------------------------------------------------------|---------------|
| Use of guesthouse accommodations                         | 2 735         |
| Sale of assets                                           | 2 120         |
| Medical premium from Medical Insurance Plan participants | 908           |
| Use of office space and parking garage                   | 866           |
| Miscellaneous revenue                                    | 5 191         |
| <b>Total other revenue</b>                               | <b>11 820</b> |

### Note 6 Expenses

#### 6.1 Implementing partners

141. Total expenses incurred by implementing partners during the financial year amounted to \$897.2 million and is analysed in table 6.1.1 by type of implementing partner and by pillar.

Table 6.1.1

(Thousands of United States dollars)

| <i>Pillar/special account</i> | <i>Government</i> | <i>International non-governmental organization</i> | <i>Local non-governmental organization</i> | <i>United Nations system organizations</i> | <i>Total expenses as at 31 December 2012</i> |
|-------------------------------|-------------------|----------------------------------------------------|--------------------------------------------|--------------------------------------------|----------------------------------------------|
| Refugees                      | 93 955            | 302 212                                            | 227 202                                    | 45 042                                     | 568 411                                      |
| Stateless                     | 1 443             | 2 760                                              | 6 197                                      | 665                                        | 11 065                                       |
| Reintegration                 | 5 999             | 15 788                                             | 23 876                                     | 5 218                                      | 50 881                                       |
| Internally displaced persons  | 8 502             | 70 167                                             | 74 896                                     | 10 519                                     | 164 084                                      |
| Common Humanitarian Pipeline  | —                 | —                                                  | —                                          | 2 767                                      | 2 767                                        |
| <b>Total</b>                  | <b>109 899</b>    | <b>390 927</b>                                     | <b>332 171</b>                             | <b>64 211</b>                              | <b>897 208</b>                               |

142. Implementing partner expenses by rights group across pillars are as shown in table 6.1.2.

Table 6.1.2

(Thousands of United States dollars)

| <i>Rights group</i>                                                       | <i>Global<br/>refugee<br/>programme</i> | <i>Global<br/>stateless<br/>programme</i> | <i>Global<br/>re-integration<br/>programme</i> | <i>Global<br/>internally<br/>displaced<br/>persons<br/>projects</i> | <i>Common<br/>Humanitarian<br/>Pipeline</i> | <i>Total<br/>expenses</i> |
|---------------------------------------------------------------------------|-----------------------------------------|-------------------------------------------|------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------|---------------------------|
| Basic needs and essential services                                        | 336 722                                 | 2 118                                     | 27 897                                         | 69 551                                                              | —                                           | 436 288                   |
| Community empowerment and self-reliance                                   | 46 738                                  | 954                                       | 14 734                                         | 23 888                                                              | —                                           | 86 314                    |
| Durable solutions                                                         | 31 810                                  | 1 718                                     | 5 968                                          | 10 373                                                              | —                                           | 49 869                    |
| Fair protection processes and documentation                               | 35 445                                  | 2 471                                     | —                                              | 12 460                                                              | —                                           | 50 376                    |
| Favourable protection environment                                         | 15 643                                  | 1 309                                     | 1 682                                          | 6 019                                                               | —                                           | 24 653                    |
| Headquarters and regional support                                         | 42 571                                  | —                                         | —                                              | —                                                                   | —                                           | 42 571                    |
| Leadership, coordination and partnerships                                 | 8 879                                   | 187                                       | 322                                            | 6 315                                                               | —                                           | 15 703                    |
| Logistics and operations support                                          | 68 708                                  | 1 680                                     | 2 253                                          | 11 343                                                              | —                                           | 83 984                    |
| Security from violence and exploitation                                   | 25 278                                  | 313                                       | 159                                            | 13 857                                                              | —                                           | 39 607                    |
| <b>Expenses reported by implementing partners against 2012 agreements</b> | <b>611 794</b>                          | <b>10 750</b>                             | <b>53 015</b>                                  | <b>153 806</b>                                                      | <b>—</b>                                    | <b>829 365</b>            |
| Outstanding reports 2012                                                  | 37 055                                  | 101                                       | (1 715)                                        | 1 114                                                               | 2 767                                       | 39 522                    |
| Expense incurred against prior year agreements                            | 19 562                                  | 214                                       | (419)                                          | 9 164                                                               | —                                           | 28 521                    |
| <b>Total expense for 2012</b>                                             | <b>668 411</b>                          | <b>11 065</b>                             | <b>50 881</b>                                  | <b>164 084</b>                                                      | <b>2 767</b>                                | <b>897 208</b>            |

143. Amounts pertaining to reports outstanding from implementing partners are shown in table 6.1.3.

Table 6.1.3

(Thousands of United States dollars)

| <i>Reports from implementing partners</i>      | <i>31 December 2012</i> |
|------------------------------------------------|-------------------------|
| Current year reports outstanding               | 39 322                  |
| Prior year reports outstanding                 | 1 051                   |
| <b>Total for which reports are outstanding</b> | <b>40 373</b>           |

144. The total amount of funds recovered from implementing partners in 2012 for unjustified expenses was \$294,984. These were identified and determined during the review by UNHCR of audit reports concerning projects implemented by partners.

145. Interest and miscellaneous income amounting to \$911,571 were received from the implementing partners. Furthermore, a total of \$238,807 was written off during 2012 against amounts recoverable from the implementing partners.

## 6.2 Salaries, employee benefits and other staff costs

(Thousands of United States dollars)

|                                             | 2012           |
|---------------------------------------------|----------------|
| Salary                                      | 370 385        |
| Pension                                     | 68 564         |
| Allowances                                  | 62 371         |
| Temporary assistance                        | 43 173         |
| Medical insurance — current                 | 30 534         |
| After-service health insurance              | 25 372         |
| Reassignment                                | 22 683         |
| Education grant                             | 17 633         |
| Termination                                 | 9 535          |
| Evacuation                                  | 6 788          |
| Repatriation grant                          | 5 035          |
| Appointment                                 | 5 027          |
| Reimbursement of income tax                 | 4 913          |
| Home leave                                  | 3 374          |
| Annual leave accrual                        | 3 584          |
| Other personnel costs                       | 8 727          |
| <b>Total salaries and employee benefits</b> | <b>687 698</b> |

## 6.3 Contractual services

(Thousands of United States dollars)

|                                   | 2012           |
|-----------------------------------|----------------|
| Transport                         | 30 572         |
| Construction                      | 29 338         |
| Joint United Nations activities   | 24 303         |
| Professional services             | 19 734         |
| External resource assistance      | 16 322         |
| Advertising                       | 11 578         |
| Marketing and data processing     | 9 336          |
| Seminars                          | 5 548          |
| Other services                    | 26 515         |
| <b>Total contractual services</b> | <b>173 246</b> |

146. Other services include various specialized services of a technical, analytical and operational nature provided through contractual arrangements.

**6.4 Supplies and consumables for beneficiaries**

(Thousands of United States dollars)

|                                                         | 2012           |
|---------------------------------------------------------|----------------|
| <b>Distributed from inventory</b>                       |                |
| Tents                                                   | 41 295         |
| Bedding materials                                       | 39 814         |
| Household items                                         | 35 479         |
| Medical, hygienic supplies and apparel                  | 25 092         |
| Construction and related equipment materials            | 16 950         |
| Food and other supplies                                 | 15 187         |
| Material consumables                                    | 1 872          |
| <b>Total distributed from inventory</b>                 | <b>175 689</b> |
| <b>Distributed from supplies and other consumables</b>  |                |
| Other supplies                                          | 11 901         |
| <b>Total supplies and consumables for beneficiaries</b> | <b>187 590</b> |

**6.5 Operating expenses**

(Thousands of United States dollars)

|                                 | 2012           |
|---------------------------------|----------------|
| Maintenance                     | 40 686         |
| Rental of premises              | 34 808         |
| Communications                  | 24 599         |
| Equipment                       | 10 232         |
| Utilities                       | 6 313          |
| Vehicles                        | 2 013          |
| Insurance                       | 1 881          |
| Other operating expenses        | 2 831          |
| <b>Total operating expenses</b> | <b>123 363</b> |

147. Expenses recognized under equipment and vehicles represent the purchase of items below the capitalization threshold of \$10,000.

**6.6 Individual and family payments to beneficiaries**

(Thousands of United States dollars)

|                                                              | 2012           |
|--------------------------------------------------------------|----------------|
| Subsistence allowance                                        | 61 678         |
| Grants                                                       | 28 255         |
| Medical treatment                                            | 6 194          |
| Travel allowance                                             | 741            |
| Other payments                                               | 5 886          |
| <b>Total individual and family payments to beneficiaries</b> | <b>102 754</b> |

**6.7 Equipment and office supplies**

(Thousands of United States dollars)

|                               | 2012          |
|-------------------------------|---------------|
| Computer equipment            | 17 463        |
| Communication equipment       | 8 692         |
| Security and safety equipment | 2 783         |
| Furniture and fixtures        | 2 749         |
| General office supplies       | 11 483        |
| <b>Total office supplies</b>  | <b>43 170</b> |

148. Expenses recognized under equipment and furniture and fixtures represent the purchase of items below the capitalization threshold of \$10,000.

**6.8 Finance costs**

(Thousands of United States dollars)

|                               | 2012            |
|-------------------------------|-----------------|
| Currency exchange differences |                 |
| Unrealized (gain)/loss        | (23 232)        |
| Realized (gain)/loss          | 263             |
| <b>Subtotal</b>               | <b>(22 969)</b> |
| Bank charges                  | 2 343           |
| <b>Net gain for 2012</b>      | <b>(20 626)</b> |

149. The currency exchange adjustments for the year 2012 resulted in a net gain of \$23 million as shown in the table above. Unrealized gains of \$23.2 million represent the revaluation of monetary assets and liabilities at year-end. Realized losses of \$0.3 million resulted from the settlement of accounts receivable, accounts payable, exchange transactions and from the settlement of all other items during the year.

**6.9 Other expenses**

(Thousands of United States dollars)

|                             | 2012         |
|-----------------------------|--------------|
| Bad debt expense            | 1 057        |
| Training                    | 4 936        |
| Miscellaneous expense       | 884          |
| <b>Total other expenses</b> | <b>6 877</b> |

**Note 7****Statement of comparison of budget and actual amounts**

150. As required by International Public Sector Accounting Standard 24, a reconciliation is provided between the actual amounts on a comparable basis as presented in statement V and the actual amounts as shown in the financial accounts, identifying separately any differences in basis, timing and entity, which are described below:

(a) Differences in basis occur as a result of the budget for UNHCR being formulated on a modified cash basis and the financial statements are prepared on an accrual basis, thereby giving rise to a basis difference;

(b) Difference in timing occurs when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNHCR for the purpose of comparison between budgets and actual amounts;

(c) Differences in entity occur when the budget does not include programmes or entities that are part of the main entity for which the financial statements are prepared. In UNHCR the budget does not include activities relating to the Working Capital and Guarantee Fund, the Medical Insurance Plan and the Common Humanitarian Pipeline;

(d) Differences in presentation are due to differences in the format and classification schemes adopted for presentation of the statement of financial performance and statement of comparison of budget and actual amounts. The budget for the Office in the statement of comparison of budget and actual amounts (statement V) is presented on an operational and geographical basis, while expenses are presented by nature of expense in the statement of financial performance (statement II).

151. A reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of financial performance (statement II) for the year ended 31 December 2012 is presented below:

(Thousands of United States dollars)

|                                                                               | 2012             |
|-------------------------------------------------------------------------------|------------------|
| Actual amount on comparable basis (statement V)                               | 2 357 710        |
| Basis differences                                                             | (76 335)         |
| Entity differences                                                            | 24 555           |
| <b>Actual amount in the statement of financial performance (statement II)</b> | <b>2 305 930</b> |

152. Explanations of material differences between the original budget and the final budget and the actual amounts are presented under the programme budget performance highlights (chap. IV, sect. E) of the financial report.

**Note 8**  
**Segment reporting**  
**8.1 Statement of financial position by segment**

(Thousands of United States dollars)

|                                         | Programmes       | Projects       | Special funds and accounts | Inter-segment | Total            |
|-----------------------------------------|------------------|----------------|----------------------------|---------------|------------------|
| <b>Assets<sup>a</sup></b>               |                  |                |                            |               |                  |
| Cash and cash equivalents               | 317 897          | 15 715         | 97 574                     | -             | 431 186          |
| Contributions receivable                | 866 577          | 56 339         | 531                        | -             | 923 447          |
| Inventories                             | 88 780           | 28 538         | 4 746                      | -             | 122 064          |
| Property, plant and equipment           | 81 303           | 18 419         | -                          | -             | 99 722           |
| Intangible assets                       | 4 392            | 1 079          | -                          | -             | 5 471            |
| Other assets                            | 46 308           | 16 588         | 14                         | -             | 62 910           |
| <b>Total assets</b>                     | <b>1 405 257</b> | <b>136 678</b> | <b>102 865</b>             | <b>-</b>      | <b>1 644 800</b> |
| <b>Liabilities</b>                      |                  |                |                            |               |                  |
| Accounts payable and accruals           | 60 391           | 14 044         | -                          | -             | 74 435           |
| Employee benefits                       | 7 108            | 1 313          | 561 842                    | -             | 570 263          |
| Contribution pending agreement          | 358              | -              | -                          | -             | 358              |
| Provisions                              | 686              | 54             | -                          | -             | 740              |
| Other liabilities                       | 742              | 306            | -                          | -             | 1 048            |
| <b>Total liabilities</b>                | <b>69 285</b>    | <b>15 717</b>  | <b>561 842</b>             | <b>-</b>      | <b>646 844</b>   |
| <b>Net assets</b>                       | <b>1 335 972</b> | <b>120 961</b> | <b>(458 977)</b>           | <b>-</b>      | <b>997 956</b>   |
| <b>Fund balances and reserves</b>       |                  |                |                            |               |                  |
| Accumulated fund balances and reserves  | 1 335 972        | 120 961        | 4 468                      | -             | 1 461 401        |
| Working Capital and Guarantee Fund      | -                | -              | 50 000                     | -             | 50 000           |
| Medical Insurance Plan                  | -                | -              | 35 481                     | -             | 35 481           |
| Staff Benefits Fund                     | -                | -              | (548 926)                  | -             | (548 926)        |
| <b>Total fund balances and reserves</b> | <b>1 335 972</b> | <b>120 961</b> | <b>(458 977)</b>           | <b>-</b>      | <b>997 956</b>   |

<sup>a</sup> Assets acquired during the year amounted to \$69.7 million, comprising \$58.6 million for the programmes segment and \$11.1 million for the projects segment.

## 8.2 Statement of financial performance by segment

(Thousands of United States dollars)

|                                                 | Programmes       | Projects       | Special funds and accounts | Inter-segment  | Total            |
|-------------------------------------------------|------------------|----------------|----------------------------|----------------|------------------|
| <b>Revenue</b>                                  |                  |                |                            |                |                  |
| Voluntary contribution                          | 2 174 189        | 221 167        | 16 080                     | -              | 2 411 436        |
| United Nations regular budget                   | 11 856           | -              | -                          | -              | 11 856           |
| Transfers                                       | (262 083)        | 262 083        | -                          | -              | -                |
| Interest revenue                                | 487              | -              | 1 266                      | -              | 1 753            |
| Other revenue                                   | 10 388           | 156            | 4 479                      | (3 203)        | 11 820           |
| <b>Total revenue</b>                            | <b>1 934 837</b> | <b>483 406</b> | <b>21 825</b>              | <b>(3 203)</b> | <b>2 436 865</b> |
| <b>Expenses</b>                                 |                  |                |                            |                |                  |
| Implementing partner expenses                   | 679 490          | 214 952        | 2 766                      | -              | 897 208          |
| Salaries and employee benefits                  | 557 150          | 95 531         | 38 220                     | (3 203)        | 687 698          |
| Contractual services                            | 155 745          | 17 501         | -                          | -              | 173 246          |
| Supplies and consumables for beneficiaries      | 124 457          | 56 767         | 6 366                      | -              | 187 590          |
| Operating expenses                              | 103 238          | 20 119         | 6                          | -              | 123 363          |
| Individual and family payments to beneficiaries | 88 646           | 14 108         | -                          | -              | 102 754          |
| Equipment and office supplies                   | 36 384           | 6 786          | -                          | -              | 43 170           |
| Travel expense                                  | 35 982           | 5 362          | 3                          | -              | 41 347           |
| Fuel and lubricants                             | 22 965           | 5 531          | -                          | -              | 28 496           |
| Consultants                                     | 20 638           | 1 213          | -                          | -              | 21 851           |
| Depreciation and amortization                   | 10 728           | 2 228          | -                          | -              | 12 956           |
| Finance costs                                   | 140              | 1              | (20 767)                   | -              | (20 626)         |
| Other expenses                                  | (3 294)          | 9 834          | 437                        | -              | 6 877            |
| <b>Total expenses</b>                           | <b>1 832 169</b> | <b>449 933</b> | <b>27 031</b>              | <b>(3 203)</b> | <b>2 305 930</b> |
| <b>Surplus/(deficit) for the year</b>           | <b>102 668</b>   | <b>33 473</b>  | <b>(206)</b>               | <b>-</b>       | <b>130 935</b>   |

153. Some internal activities lead to accounting transactions that create inter-segment revenue and expense in the financial statements. During the year ended 31 December 2012, activities have created inter-segment balances in the amount of \$3.2 million in the statement of financial performance (statement II).

154. Contributions for operations and other activities are recognized as revenue when these contributions are confirmed in writing. Expenses are incurred gradually over time according to operational needs and requirements.

155. Earmarked contributions are recorded to the applicable fund/pillar upon receipt. Unearmarked and broadly earmarked contributions are initially recorded under pillar 1 (global refugee programme) and are subsequently transferred to other pillars as needed to cover budgetary requirements. Accumulated fund balances under programmes, projects and special accounts represent the unexpended portion of contributions that are carried forward to be utilized in future operational requirements.

#### **Note 9**

#### **Commitments and contingencies**

##### **9.1 Leases**

156. Obligations for operating leases are described below:

(Thousands of United States dollars)

|                                           | 2012          |
|-------------------------------------------|---------------|
| Obligations for operating leases          |               |
| Under 1 year                              | 8 050         |
| 1-5 years                                 | 10 663        |
| Beyond 5 years                            | —             |
| <b>Total operating leases obligations</b> | <b>18 713</b> |

157. As at 31 December 2012, UNHCR did not have any finance leases.

##### **9.2 Commitments**

158. At 31 December 2012, UNHCR had commitments for the acquisition of goods and services, as well as capital commitments contracted but not delivered, as follows:

(Thousands of United States dollars)

|                                                         | 2012   |
|---------------------------------------------------------|--------|
| Inventory                                               | 73 178 |
| Supplies                                                | 6 967  |
| Property, plant and equipment                           | 5 983  |
| Services                                                | 28 799 |
| Instalments due against implementing partner agreements | 32 964 |

|                               | 2012           |
|-------------------------------|----------------|
| Operating expenses            | 7 943          |
| Consultants                   | 3 091          |
| Other commitments             | 1 187          |
| <b>Total open commitments</b> | <b>160 112</b> |

159. Under International Public Sector Accounting Standard 1 on accrual accounting and on the basis of the delivery principle, commitments for future expenses are not recognized in the financial statements. Such commitments will be settled from the unexpended portion of contributions after receipt of the related goods and services.

### 9.3 Legal or contingent liabilities

160. There are no material contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to UNHCR.

#### Note 10

##### Losses, ex gratia payments and write-offs

161. Financial Rule 10.5 of UNHCR provides that ex gratia payments may be approved by the Controller for an amount not exceeding \$5,000, when such payments are considered desirable in the interest of the Organization. Ex gratia payments in excess of \$5,000 require the approval of the High Commissioner. A statement of ex gratia payments was submitted to the United Nations Boards of Auditors and to the Executive Committee with the financial statements. Two such payments were authorized by the High Commissioner, one for \$6,000 and the other for \$44,405.

162. Financial Rule 10.6 provides that write-offs up to \$10,000 due to the loss of cash or of the book value of accounts receivable may be authorized by the Controller and the write-off of amounts in excess of \$10,000 requires the approval of the High Commissioner. A statement of all amounts written off was submitted to the Board of Auditors. During 2012, cash losses, irrecoverable contributions receivable and other current assets, including amounts due from implementing partners, resulted in write-offs amounting to \$19.2 million.

163. Two cases of fraud were reported in 2012, amounting to \$0.2 million.

#### Note 11

##### Related party disclosures

164. The key management personnel of UNHCR are the High Commissioner, the Deputy High Commissioner, the two Assistant High Commissioners and the Controller, as they have the authority and responsibility for planning, directing and controlling the activities of UNHCR.

(Thousands of United States dollars)

|                          | Number<br>of posts | Compensation<br>and post<br>adjustments | Entitlements | Pension and<br>health plans | Total<br>remuneration | Outstanding<br>advances<br>against<br>entitlements at<br>31 December<br>2012 | Outstanding<br>loans as at<br>31 December<br>2012 |
|--------------------------|--------------------|-----------------------------------------|--------------|-----------------------------|-----------------------|------------------------------------------------------------------------------|---------------------------------------------------|
| Key management personnel | 5                  | 1 279                                   | 107          | 258                         | 1 644                 | —                                                                            | —                                                 |

165. The table above summarizes aggregate remuneration paid to key management personnel and includes: net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effects shipment costs, and employer pension and current health insurance contributions.

166. Key management personnel also qualify for post-employment benefits at the same level as other employees. These benefits cannot be reliably quantified. They are also ordinary members of the Pension Fund.

## Note 12

### Opening balance adjustments

167. The opening balances (restated) represent the audited statement of assets, liabilities, reserves and fund balances as at 31 December 2011, which has been restated as at 1 January 2012 to incorporate adjustments made due to changes in accounting policies as at 1 January 2012 resulting from the implementation of IPSAS.

168. These adjustments pertain to the capitalization of property, plant and equipment, recognition of inventories, recognition of all confirmed contributions from donors for future years, derecognition of liabilities for unliquidated obligations and adjustments relating to employee benefits liabilities.

169. The adjustments to opening balances upon the implementation of the International Public Sector Accounting Standards are:

(Thousands of United States dollars)

|                                    | 31 December 2011<br>(audited) | IPSAS<br>adjustments | Opening balance as at<br>1 January 2012<br>(restated) |
|------------------------------------|-------------------------------|----------------------|-------------------------------------------------------|
| <b>Assets</b>                      |                               |                      |                                                       |
| <b>Current assets</b>              |                               |                      |                                                       |
| Cash and term deposits             | 534 908                       | (534 908)            | —                                                     |
| Cash and cash equivalents          | —                             | 534 908              | 534 908                                               |
| Voluntary contributions receivable | 62 085                        | (62 085)             | —                                                     |
| Contributions receivable           | —                             | 593 074              | 593 074                                               |
| Inventories                        | —                             | 92 485               | 92 485                                                |
| Other assets                       | 2 002                         | 57 314               | 59 316                                                |
| Due from United Nations agencies   | 1 491                         | (1 491)              | —                                                     |

|                                              | 31 December 2011<br>(audited) | IPSAS<br>adjustments | Opening balance as at<br>1 January 2012<br>(restated) |
|----------------------------------------------|-------------------------------|----------------------|-------------------------------------------------------|
| Due from implementing agencies, net          | 576                           | (576)                | —                                                     |
| Other receivables                            | 20 980                        | (20 980)             | —                                                     |
|                                              | <b>622 042</b>                | <b>657 741</b>       | <b>1 279 783</b>                                      |
| <b>Non-current assets</b>                    |                               |                      |                                                       |
| Contributions receivable                     | —                             | 140 451              | 140 451                                               |
| Land and buildings                           | 5 247                         | (5 247)              | —                                                     |
| Property, plant and equipment                | —                             | 52 295               | 52 295                                                |
| Intangible assets                            | —                             | —                    | —                                                     |
| Other non-current assets                     | —                             | —                    | —                                                     |
|                                              | <b>5 247</b>                  | <b>187 499</b>       | <b>192 746</b>                                        |
| <b>Total assets</b>                          | <b>627 289</b>                | <b>845 240</b>       | <b>1 472 529</b>                                      |
| <b>Liabilities</b>                           |                               |                      |                                                       |
| <b>Current liabilities</b>                   |                               |                      |                                                       |
| Accounts payable                             | 47 155                        | (47 155)             | —                                                     |
| Accounts payable and accruals                | —                             | 69 315               | 69 315                                                |
| Employee benefits                            | —                             | 71 605               | 71 605                                                |
| Contributions received in advance            | 52 243                        | (52 243)             | —                                                     |
| Contributions pending agreement              | —                             | 2 438                | 2 438                                                 |
| Provisions                                   | —                             | —                    | —                                                     |
| Other current liabilities                    | —                             | 3 944                | 3 944                                                 |
| End-of-service and post-retirement liability | 483 483                       | (483 483)            | —                                                     |
| Unliquidated obligations                     | 205 794                       | (205 794)            | —                                                     |
|                                              | <b>788 675</b>                | <b>(641 373)</b>     | <b>147 302</b>                                        |
| <b>Non-current liabilities</b>               |                               |                      |                                                       |
| Employee benefits                            | —                             | 396 159              | 396 159                                               |
| Provisions                                   | —                             | 600                  | 600                                                   |
|                                              | <b>—</b>                      | <b>396 759</b>       | <b>396 759</b>                                        |
| <b>Total liabilities</b>                     | <b>788 675</b>                | <b>(244 614)</b>     | <b>544 061</b>                                        |
| <b>Net assets</b>                            | <b>(161 386)</b>              | <b>1 089 854</b>     | <b>928 468</b>                                        |
| Accumulated fund balances and reserves       | 232 043                       | 1 064 242            | 1 296 285                                             |
| Working Capital and Guarantee Fund           | 50 000                        | —                    | 50 000                                                |
| Medical Insurance Plan                       | 39 489                        | —                    | 39 489                                                |
| Staff Benefits Fund                          | (482 918)                     | 25 612               | (457 306)                                             |
| <b>Total fund balances and reserves</b>      | <b>(161 386)</b>              | <b>1 089 854</b>     | <b>928 468</b>                                        |

**Note 13**

**Events after the reporting date**

170. The reporting date for the Office of the United Nations High Commissioner for Refugees is 31 December of each year. As of the date of the signing of the present accounts, no material events, favourable or unfavourable, had occurred between the balance sheet date and the date when the financial statements were authorized for issue that would have had an impact on the present statements.

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